

Tax Year 1999



Wage & Investment Research

Research Group 5

Research Project Objectives

- Answer the five baseline questions relating to the four major *e-file* market segments and
- To investigate and present new information



TY 1999 Baseline Research Questions

1. What are the differences in the taxpayer profiles for the four market segments and for the entire population?
2. What are the differences in the profiles of *e-file* users and non-*e-file* users (by product line) for each of the four market segments and for the entire population based on specified measures?
3. What are the repeat rates and inter-modal migration rates for paper, ELF, TeleFile and On-Line returns between TY 1998 and TY 1999?
4. What is the number and percentage of computer usage for return preparation in each of the market segments?
5. Profile those taxpayers who received a TeleFile PIN based on eligibility.

Additional Topics

- ✿ Business Operating Division analysis
- ✿ First and second time filers
- ✿ Form 1040PC migration
- ✿ Self-prepared, simple stratification
- ✿ Four-year filer analysis
- ✿ Balance due filer analysis

Market Segment Definitions

- ✿ Self-prepared return - there was no paid- preparer identification number on the return
- ✿ Paid-preparer return - there was a paid-preparer identification number on the return
- ✿ Simple return -
 - Form 1040-EZ or Form 1040A
 - Form 1040 or 1040PC with no schedules
- ✿ Complex return - all returns that do not meet the definition of a simple return

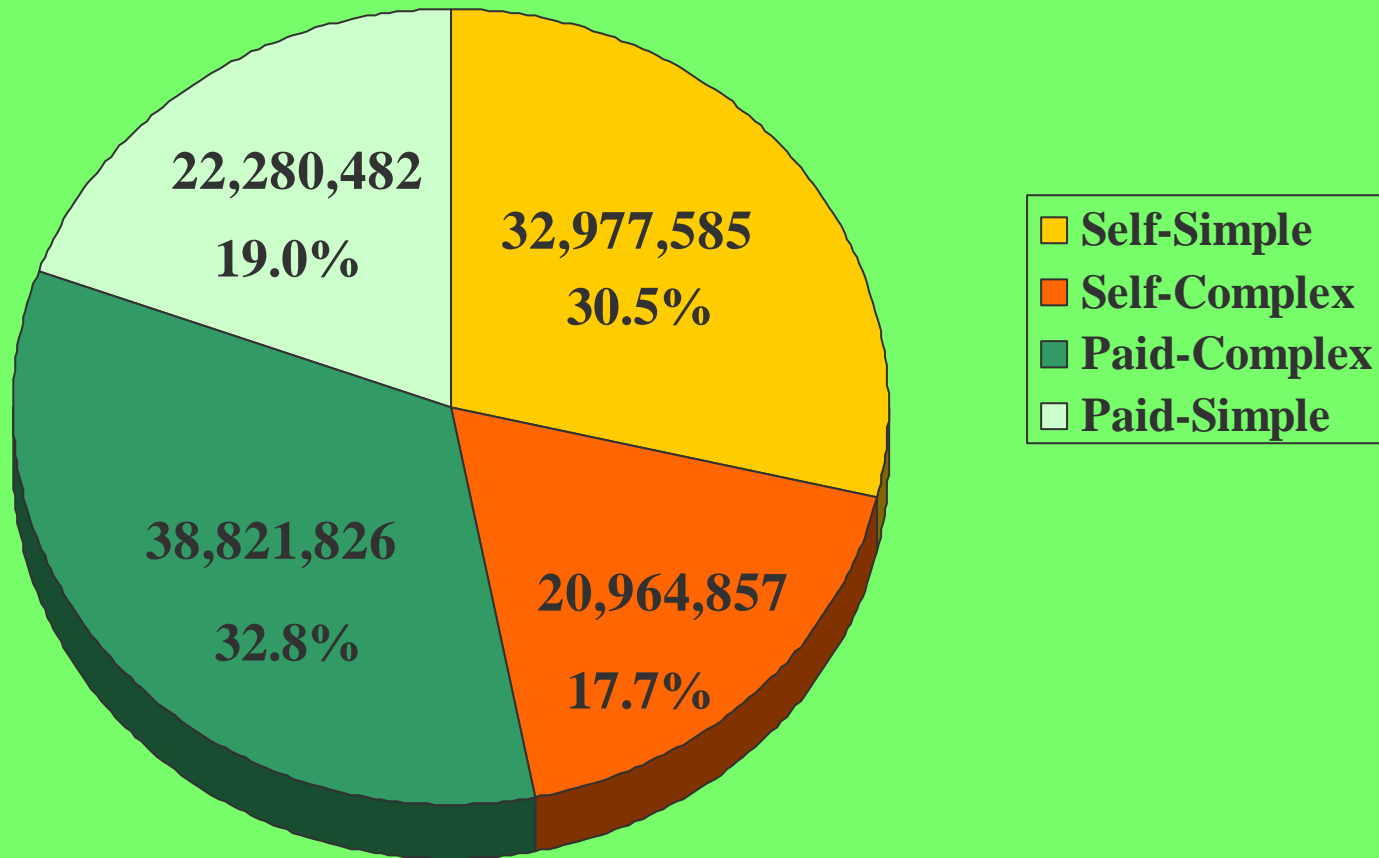
Four *e-file* Market Segments

- ✿ Self-prepared Simple Returns (Self-Simple)
- ✿ Self-prepared Complex Returns (Self-Complex)
- ✿ Paid-preparer Simple Returns (Paid-Simple)
- ✿ Paid-preparer Complex Returns (Paid-Complex)

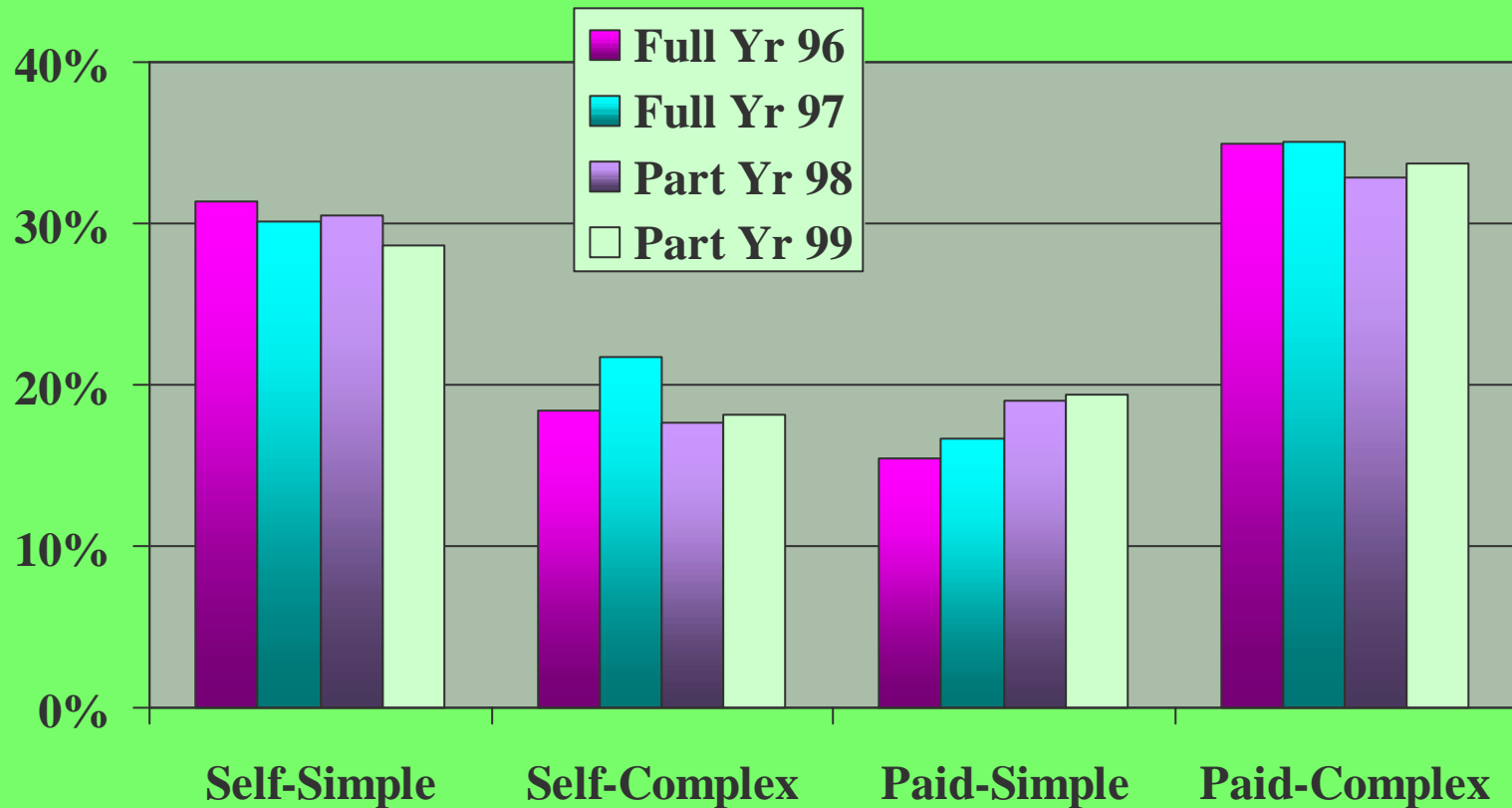
Profile of TY 1999 filers

- ✿ Market segment
- ✿ Business operating division
- ✿ Electronic filing
- ✿ Users and non-users of electronic filing
- ✿ Balance due and electronic filing
- ✿ First and second time filers

The Four Principal Market Segments In PY 2000



There has been only a slight change in the market segment return distribution



No major differences in taxpayer profiles for the four market segments from last year

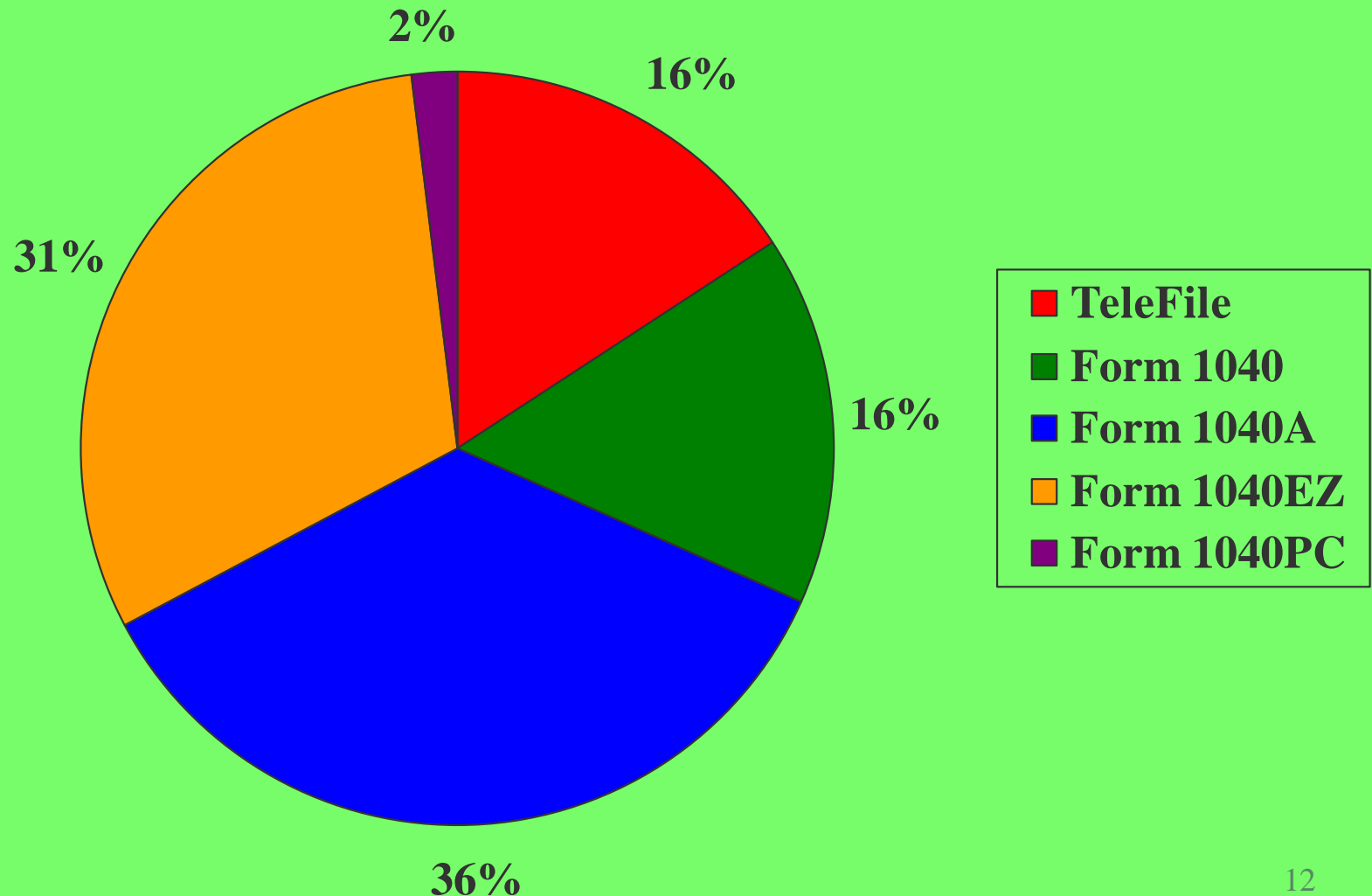
- Age
- Marital Status
- AGI
- Balance Due

All are similar to last year

Only 211,096 of 115,044,750 returns could not use electronic filing because of an ineligible form

What Forms Did The Self-Prepared Simple Market Segment Filers Use?

Forms Used By The Self-Prepared Simple Segment

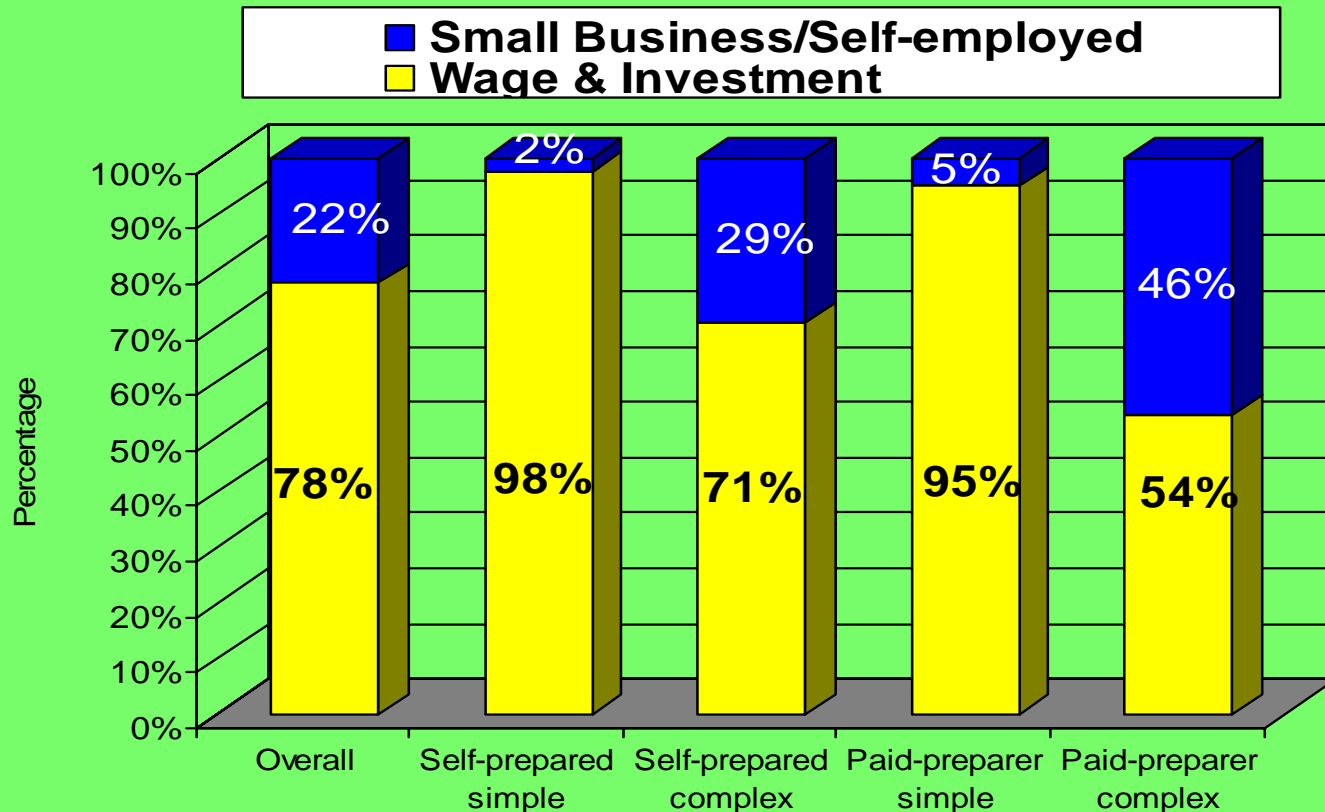


In the self-prepared simple segment

- ✿ 21% of those who filed a Form 1040 received a TeleFile package
- ✿ 13% of those who filed a Form 1040A received a TeleFile package
- ✿ 54% of those who filed a Form 1040EZ received a TeleFile package
- ✿ 29% of those who filed a Form 1040PC received a TeleFile package

Business Operating Divisions

- 78% of all returns (89 million) were W&I returns.
- 95% of the simple market segment returns were W&I
- Highest proportion of SB/SE returns is in paid-preparer complex return market segment

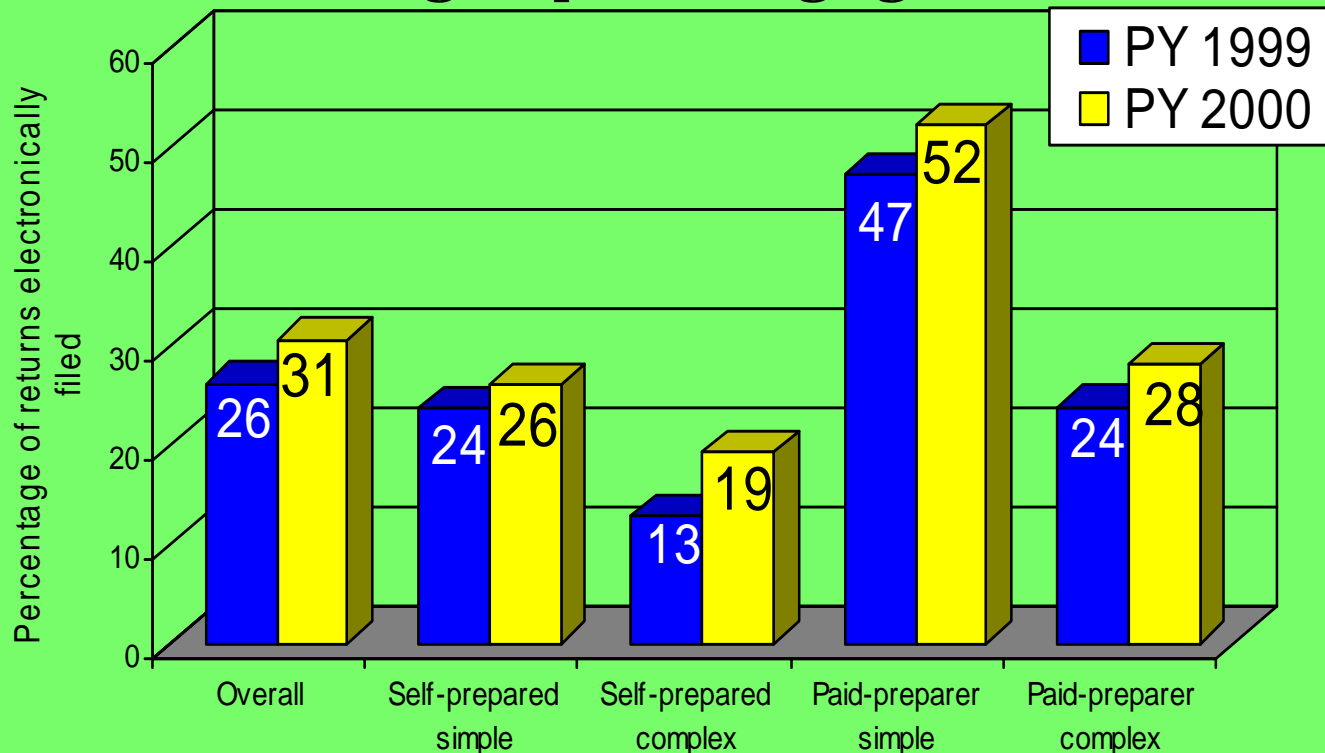


Electronic Filing in Tax Year 1999

- ✿ Electronic users vs. non-users
- ✿ Balance due effect on electronic filing

Use of electronic filing by market segment

- 31% of the PY 2000 returns and 26% of the PY 1999 returns were electronically filed.
- Over 50% of the paid-preparer simple returns are now *e-file* returns.
- The self-prepared complex return market continues to have the least *e-file* penetration (19%) but this segment also had the largest percentage growth in *e-file* returns.



Growth in *e-file* is lagging with self-prepared simple returns:

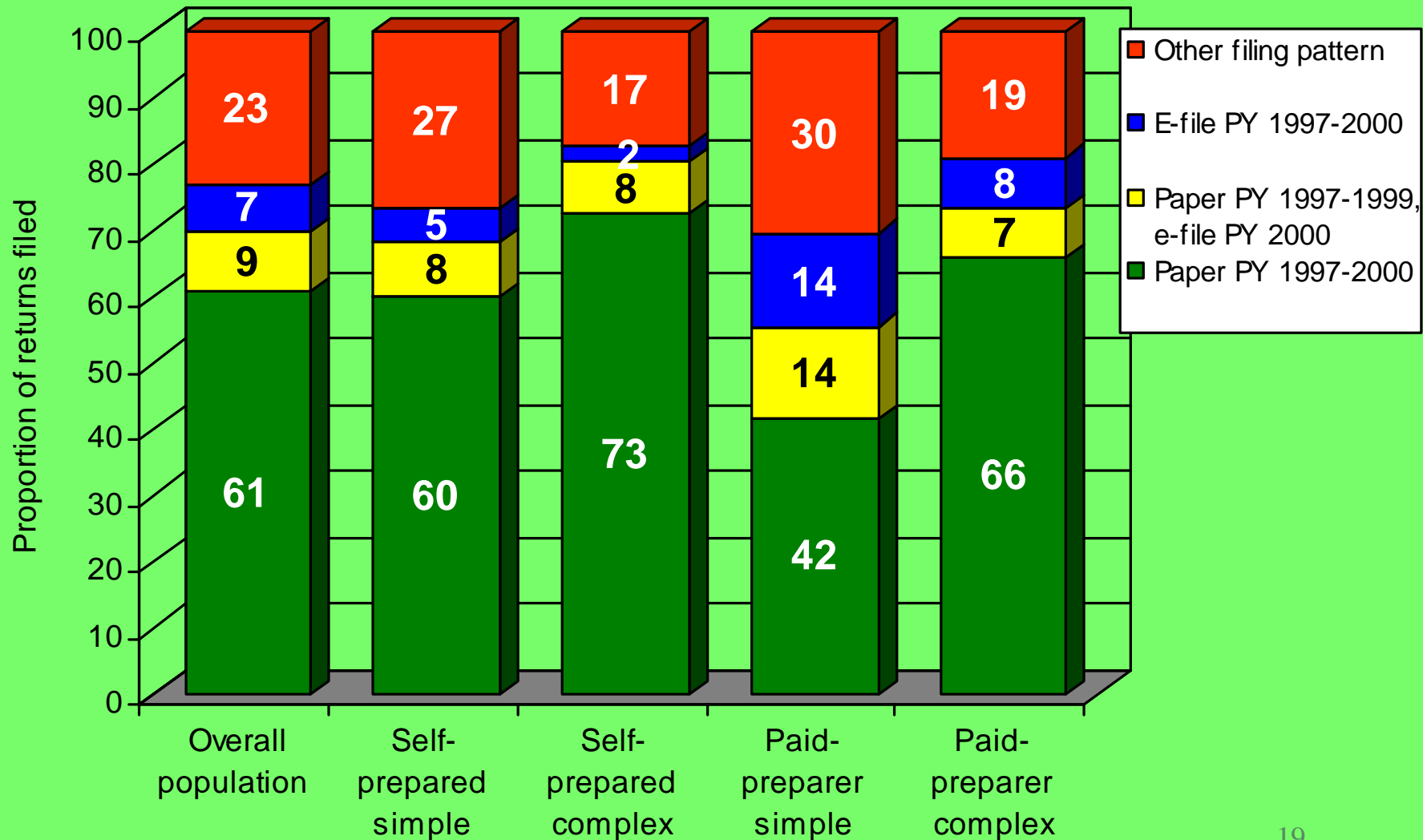
| Market segment | PY 1999 | | | PY 2000 | | | Percent growth |
|----------------|-------------|---------------|---------|-------------|---------------|---------|----------------|
| | Returns | <i>e-file</i> | Percent | Returns | <i>e-file</i> | Percent | |
| Self-simple | 33,983,495 | 8,040,557 | 24% | 32,977,585 | 8,625,267 | 26% | 8% |
| Self-complex | 19,773,564 | 2,505,736 | 13% | 20,964,857 | 4,051,771 | 19% | 46% |
| Paid-simple | 21,135,871 | 9,952,526 | 47% | 22,280,482 | 11,622,847 | 52% | 11% |
| Paid-complex | 36,526,951 | 8,685,816 | 24% | 38,821,826 | 10,851,949 | 28% | 17% |
| Total | 111,419,881 | 29,184,635 | 26% | 115,044,750 | 35,151,834 | 31% | 19% |

Electronic Filing by Operating Division

- *e-file* returns are disproportionately represented in W&I. W&I has over 86% percent of the *e-file* returns while comprising only 78% of the filing population.
- Only 14% of the *e-filed* returns are in SB/SE.

| | Wage and Investment | Small Business/Self- employed | Total populations |
|-----------------------------|------------------------|----------------------------------|----------------------|
| <i>e-file</i> Population | 30,389,730 | 4,762,104 | 35,151,834 |
| Percentage | 86% | 14% | 100% |
| Total population | 89,112,068 | 25,932,682 | 115,044,750 |
| Percentage | 78% | 22% | 100% |

Four Year Filing Pattern



The *e-file* penetration rate increased to 31%

| | PY 1998 | PY 1999 | PY 2000 | Percentage change PY 1998 to PY 1999 | Percentage change PY 1999 to PY 2000 |
|---------------------------|-------------|-------------|-------------|--------------------------------------------|--------------------------------------------|
| Electronic returns | 21% | 26% | 31% | 20% | 20% |
| • ELF | 15% | 19% | 22% | 22% | 18% |
| • TeleFile | 5% | 5% | 5% | -5% | -9% |
| • On-Line | 1% | 2% | 4% | 140% | 122% |
| Paper returns | 79% | 74% | 69% | -8% | -9% |
| Total returns | 100% | 100% | 100% | - | |

On-Line filing continued tremendous growth

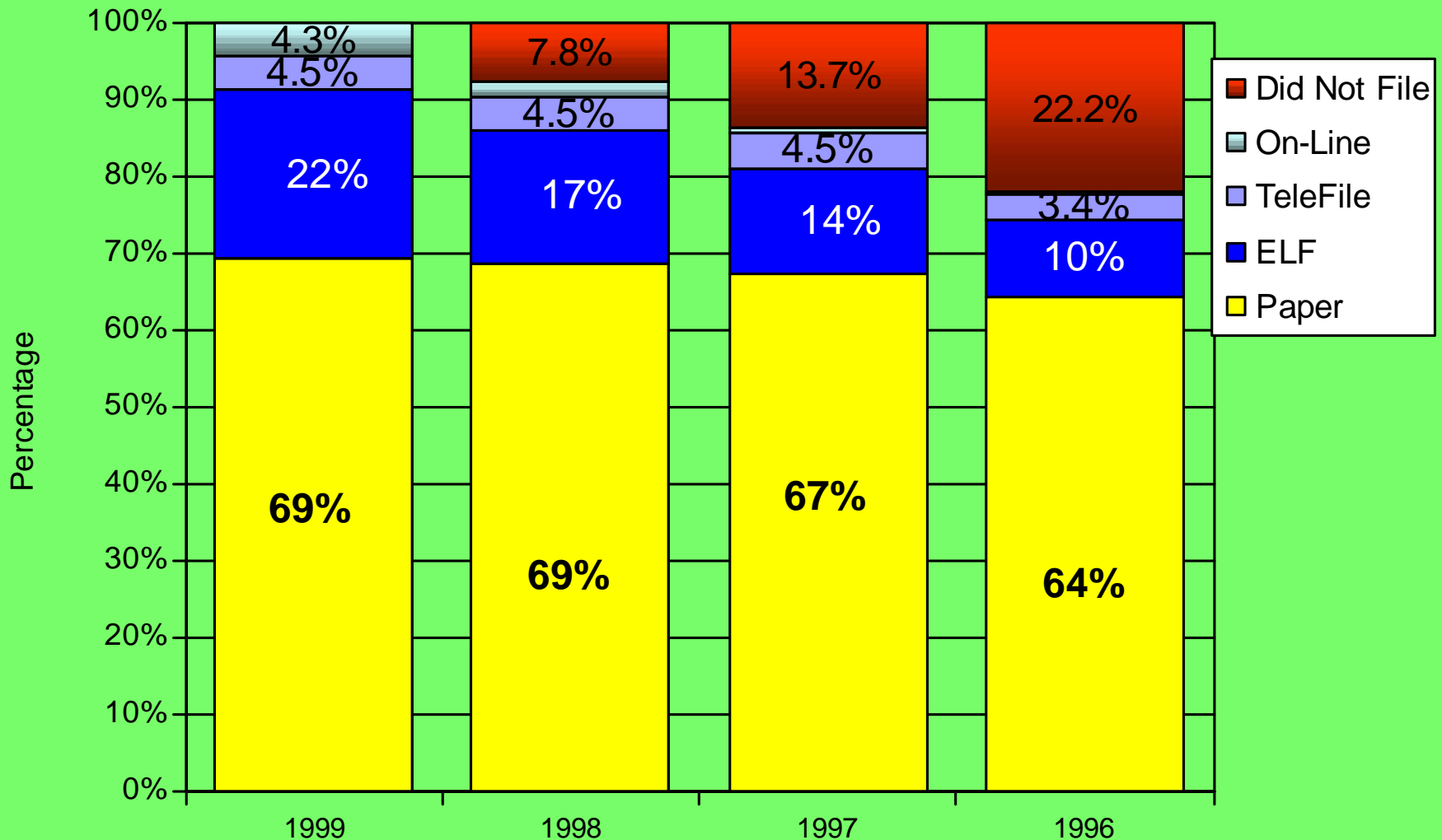
TeleFile accelerated its loss of users

Four Year Filing Patterns for Tax Year 1999 Filers

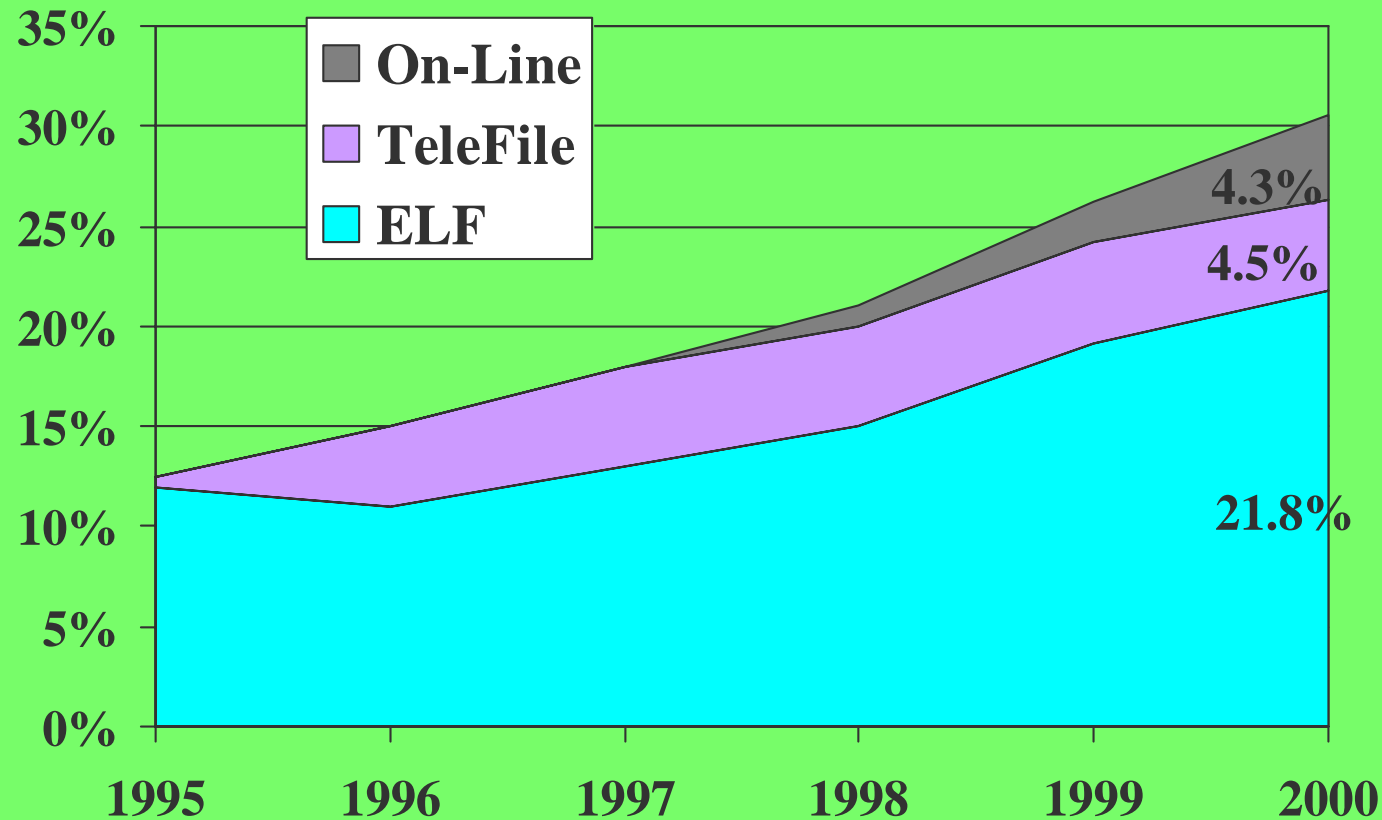
| Tax Year | Paper | ELF | TeleFile | On-Line | TY 99 Total |
|----------|------------|------------|-----------|-----------|-------------|
| 1996 | 82,949,516 | 11,203,692 | 3,781,656 | 316,667 | 115,044,750 |
| 1997 | 77,396,000 | 15,796,548 | 5,182,951 | 857,181 | 115,044,750 |
| 1998 | 79,016,351 | 19,716,936 | 5,179,131 | 2,107,274 | 115,044,750 |
| 1999 | 79,892,916 | 25,036,390 | 5,153,011 | 4,962,433 | 115,044,750 |

| | | | |
|---------------------|------------|------------|-------------|
| <u>Did Not File</u> | | e-file | Penetration |
| 1996 | 16,793,219 | 16,468,416 | 15% |
| 1997 | 15,812,070 | 22,276,555 | 20% |
| 1998 | 9,025,058 | 29,184,635 | 26% |
| | | 35,151,834 | 31% |

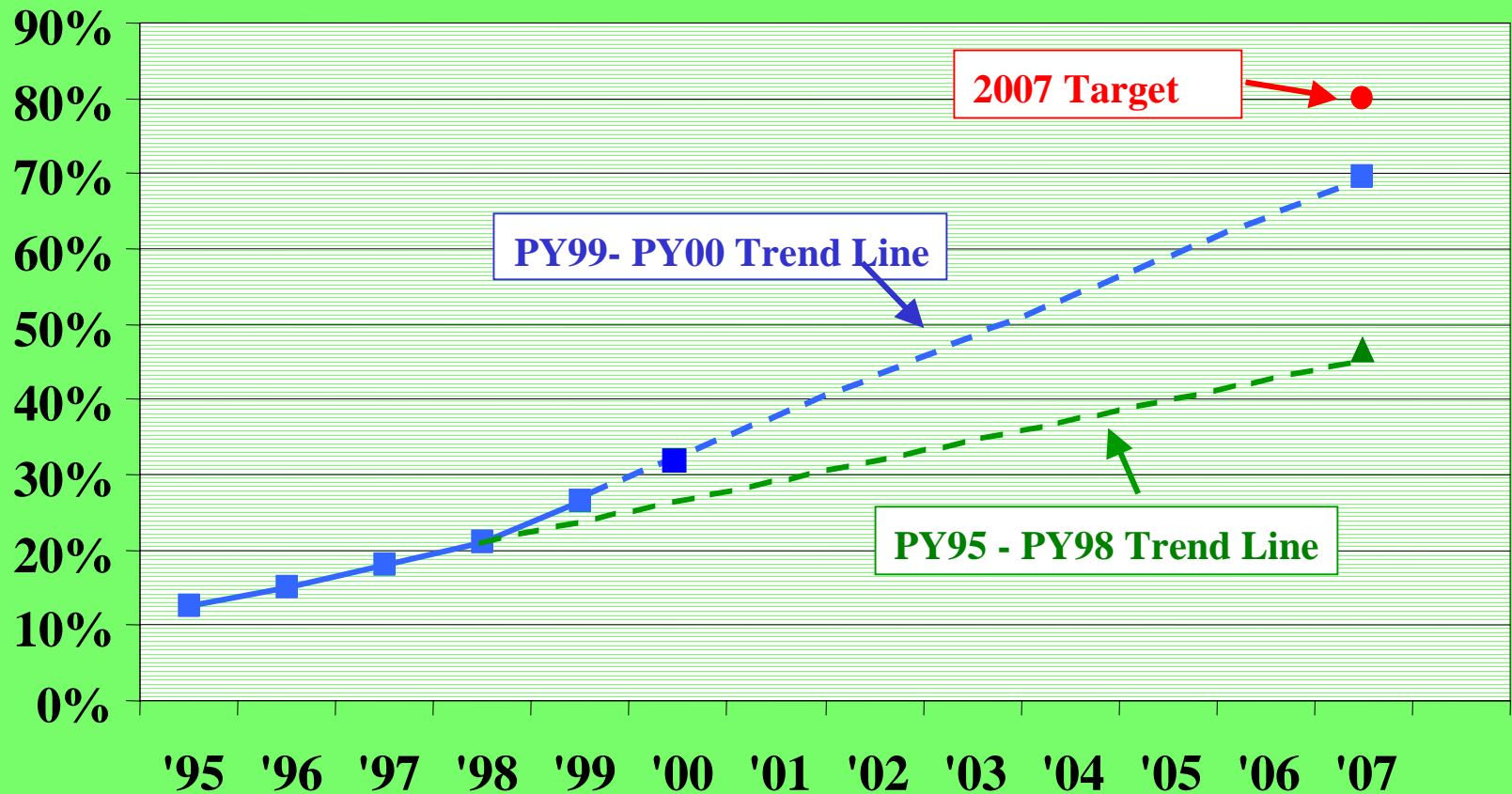
Looking at the same population from 1996 to 1999,
electronic filing grew from 13% to 31%



The filing trend is toward electronic returns

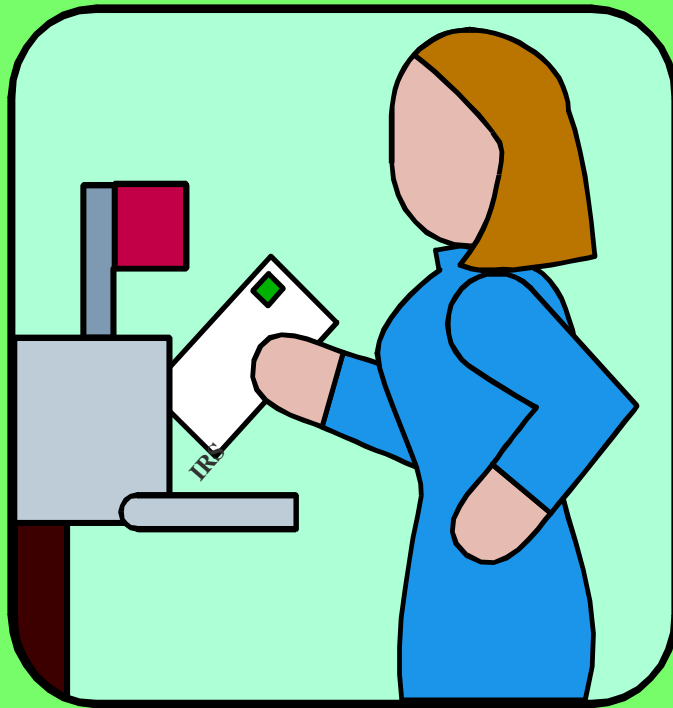


The *e-file* penetration growth rate increased significantly in PY 2000



But is still insufficient to meet the 2007 target.

The Significant Differences In The Profiles Of *e-file* Users And Non-Users In Each Market Segment Remain



Differences between *e-file* users and non-users are the same as last year

- ✿ *e-file* users are younger than non-users in every market segment
- ✿ TeleFile and ELF users have lower income than non-users
- ✿ In each market segment *e-file* users more often are single, have a refund return, claim EIC and utilize direct deposit than non-users

Seventy-four percent of *e-file* returns were filed by March 15th in TY 1999

| | Paper | ELF | TeleFile | On-Line | Total |
|-------------------|-------|------|----------|---------|-------|
| January | 3% | 16% | 25% | 5% | 7% |
| February-March 15 | 32% | 60% | 54% | 54% | 40% |
| March 15-April 15 | 26% | 19% | 15% | 27% | 24% |
| April 16-May 31 | 38% | 5% | 6% | 12% | 28% |
| June 1-July 1 | 1% | 0% | 1% | 2% | 1% |
| Total | 100% | 100% | 100% | 100% | 100% |

Sixty-six percent of the returns filed from March 15 through July 1 were in the complex segment

| Date filed | Self-prepared simple | Self-prepared complex | Paid-preparer simple | Paid-preparer complex | Total |
|-------------------|----------------------|-----------------------|----------------------|-----------------------|-------|
| January | 9% | 2% | 13% | 3% | 7% |
| February-March 15 | 47% | 32% | 51% | 33% | 40% |
| March 15-April 15 | 26% | 25% | 20% | 29% | 24% |
| April 16-May 31 | 24% | 40% | 16% | 34% | 28% |
| June 1-July 1 | 0% | 1% | 0% | 1% | 1% |
| Total | 100% | 100% | 100% | 100% | 100% |

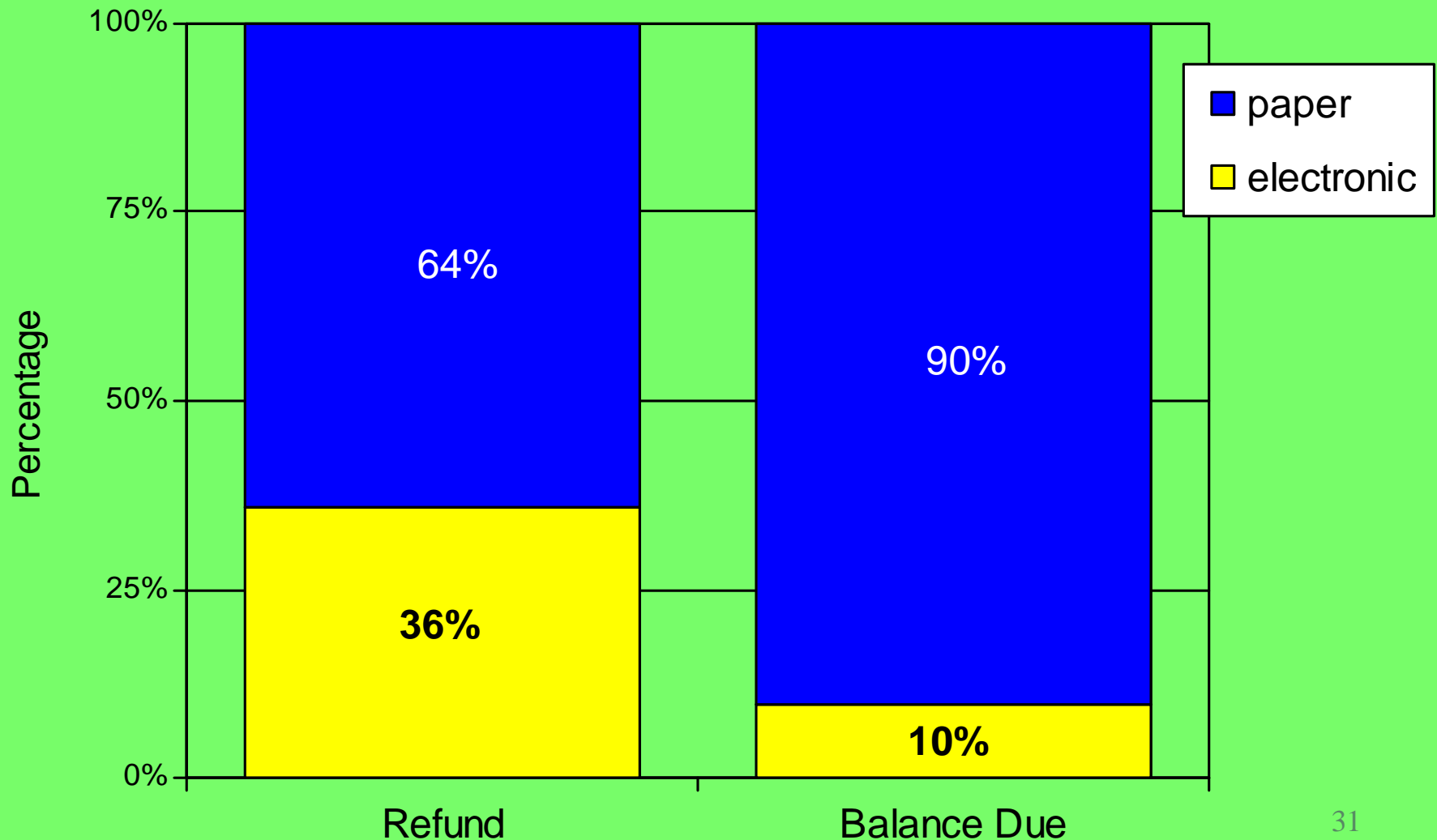
Over one-third of all complex returns are filed after April 15

Summary of the Differences Between *e-file* Users and Non-users

| | <i>e-file</i> user | <i>e-file</i> non-user |
|------------------------------|--------------------|------------------------|
| Average age | 37 | 44 |
| Average income | \$31,039 | \$45,757 |
| Average refund | \$1,613 | \$166 |
| Refund indicator | 93% | 71% |
| EIC indicator | 29% | 10% |
| Direct Deposit indicator | 63% | 9% |
| Filed a simple return | 58% | 44% |
| Filed a self-prepared return | 36% | 52% |
| Direct Debit indicator | 1% | 0% |
| RAL indicator | 33% | 0% |

Balance Due Returns And Electronic Filing

Refund returns file electronically at better than three times the rate of balance due returns



The *e-file* penetration rate is much lower for balance due returns in each segment:

| | Tax Year 1999 | | | | | | | |
|---------------------------------|----------------------|----------------|-----------------------|----------------|----------------------|----------------|-----------------------|----------------|
| | Self-prepared simple | | Self-prepared complex | | Paid-preparer simple | | Paid-preparer complex | |
| | Balance due | Refund or even | Balance due | Refund or even | Balance due | Refund or even | Balance due | Refund or even |
| Number of returns (in millions) | 3.6 | 29.4 | 6.1 | 14.9 | 2.5 | 19.7 | 11.0 | 27.8 |
| Percentage <i>e-filed</i> | 13% | 28% | 7% | 25% | 15% | 57% | 9% | 35% |

| (In Millions) | Tax Year 1997 | | | Tax Year 1998 | | | Tax Year 1999 | | |
|------------------|---------------|----------------|-------|---------------|----------------|-------|---------------|----------------|-------|
| | Balance due | Refund or even | Total | Balance due | Refund or even | Total | Balance due | Refund or even | Total |
| Paper | 27.0 | 62.4 | 89.4 | 19.6 | 62.6 | 82.2 | 20.9 | 58.9 | 79.9 |
| <i>e-file</i> | 1.2 | 23.2 | 24.4 | 1.5 | 27.7 | 29.2 | 2.3 | 32.9 | 35.1 |
| Total | 28.2 | 85.6 | 113.8 | 21.1 | 90.3 | 111.4 | 23.2 | 91.8 | 115.0 |
| % <i>e-filed</i> | 4% | 27% | 21% | 7% | 31% | 26% | 10% | 36% | 31% |

Repeat rates: Refund and Balance Due Returns

| | Refund Return in 1998 | |
|----------|-----------------------|-----------------|
| | Refund in 1999 | Bal Due in 1999 |
| ELF | 83% | 42% |
| On-Line | 78% | 50% |
| TeleFile | 63% | 42% |

| | Bal Due Return in 1998 | |
|----------|------------------------|-----------------|
| | Refund in 1999 | Bal Due in 1999 |
| ELF | 72% | 71% |
| On-Line | 80% | 76% |
| TeleFile | 52% | 60% |

Balance due returns repeat *e-file* whether refund or not the next year

- ❧ Refund returns have poor loyalty to electronic filing when they become balance due
- ❧ Overall, Balance Due On-Line returns have a greater repeat rate than refund returns
- ❧ The refund segment is 14 times larger
- ❧ After filing electronically as a balance due for two years the repeat rate the third year is 79%

Balance due not full paid

- ✿ Returns are balance due in both 1998 and 1999
- ✿ If return full pays with return in 1999, the repeat rate is 75 percent
- ✿ If return does not full pay with return in 1999, the repeat rate is 62 percent
- ✿ Lack of an electronic installment agreement (Form 9465) may contribute to this disparity

Summary

- ❧ Electronic Balance Due Filers are Loyal Customers
- ❧ Once a balance due return is converted to electronic filing they stay loyal to electronic filing even if remaining balance due
- ❧ Specific marketing efforts to convince balance due filers to try electronic filing would create a loyal customer base regardless of balance status year to year

Recommendation

- ✿ We recommend a survey of balance due electronic filers to determine what they like about *e-filing*.
- ✿ This information should be used to craft a marketing campaign that would appeal to all taxpayers regardless of balance status

First-time and Second-time Filers

- ✿ Any filer who showed no record of filing a return in 1996, 1997, or 1998 was considered a first-time filer
- ✿ Any filer who showed no record of filing a return in 1996 or 1997 was considered a second-time filer
- ✿ No taxpayer filed in 1996 and 1999 but nothing in between

First-time and Second-time Filers(continued)

✿ Identified

6,765,311 first-time filers

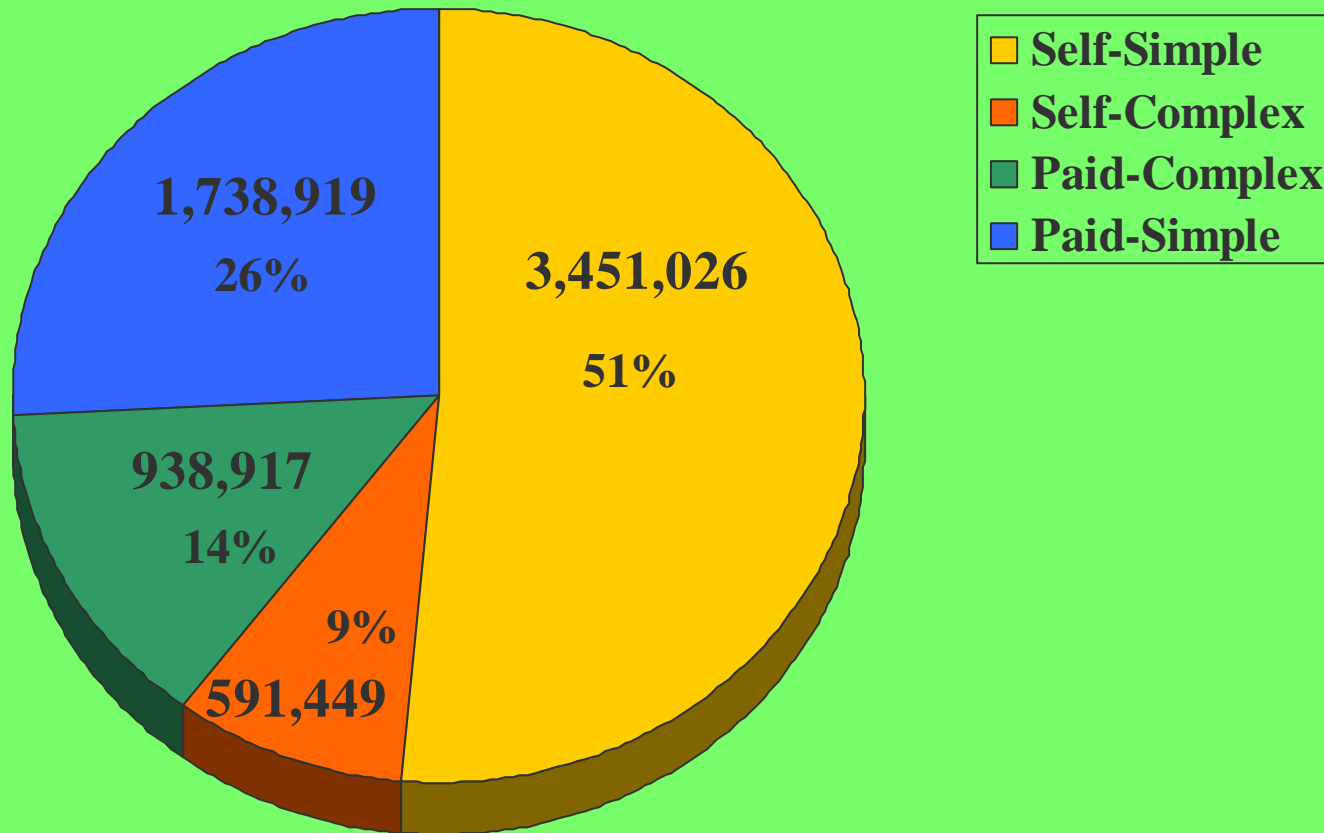
7,293,105 second-time filers

✿ Examined

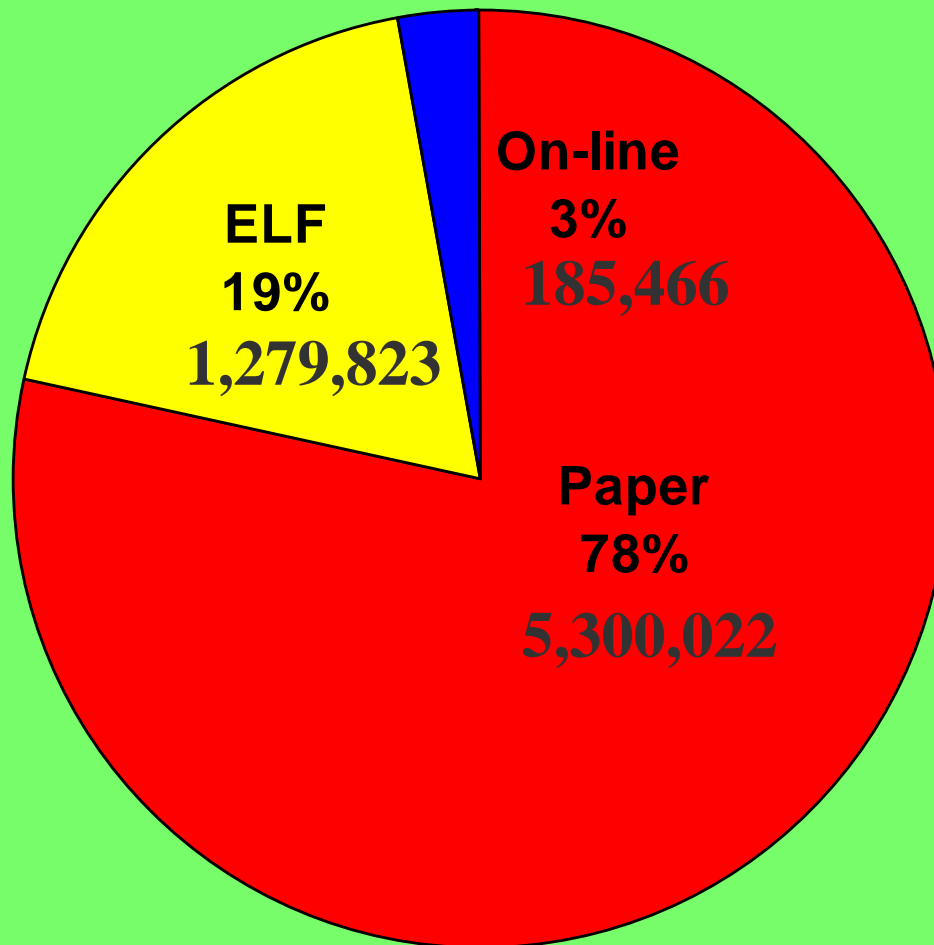
How did they file their returns?

What market segment are they in?

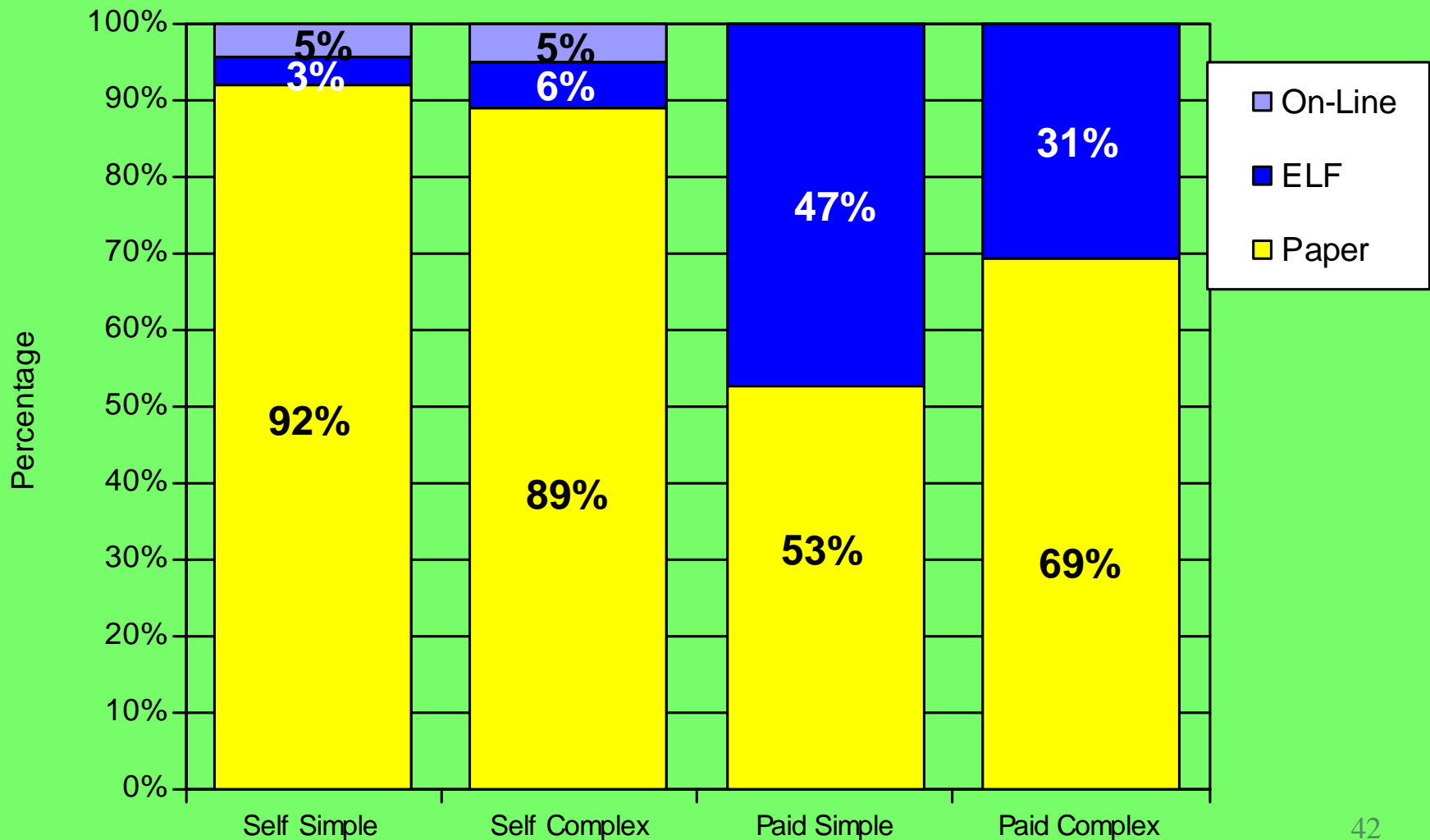
What Market Segment Do First- Time Filers Fall Into?



How Do First-Time Filers file?



Filing Of First-Time Filers By Market Segment



First-time Filers

✿ Balance status

| | |
|-------------|-----|
| Refund | 83% |
| Balance due | 12% |
| Even | 5% |

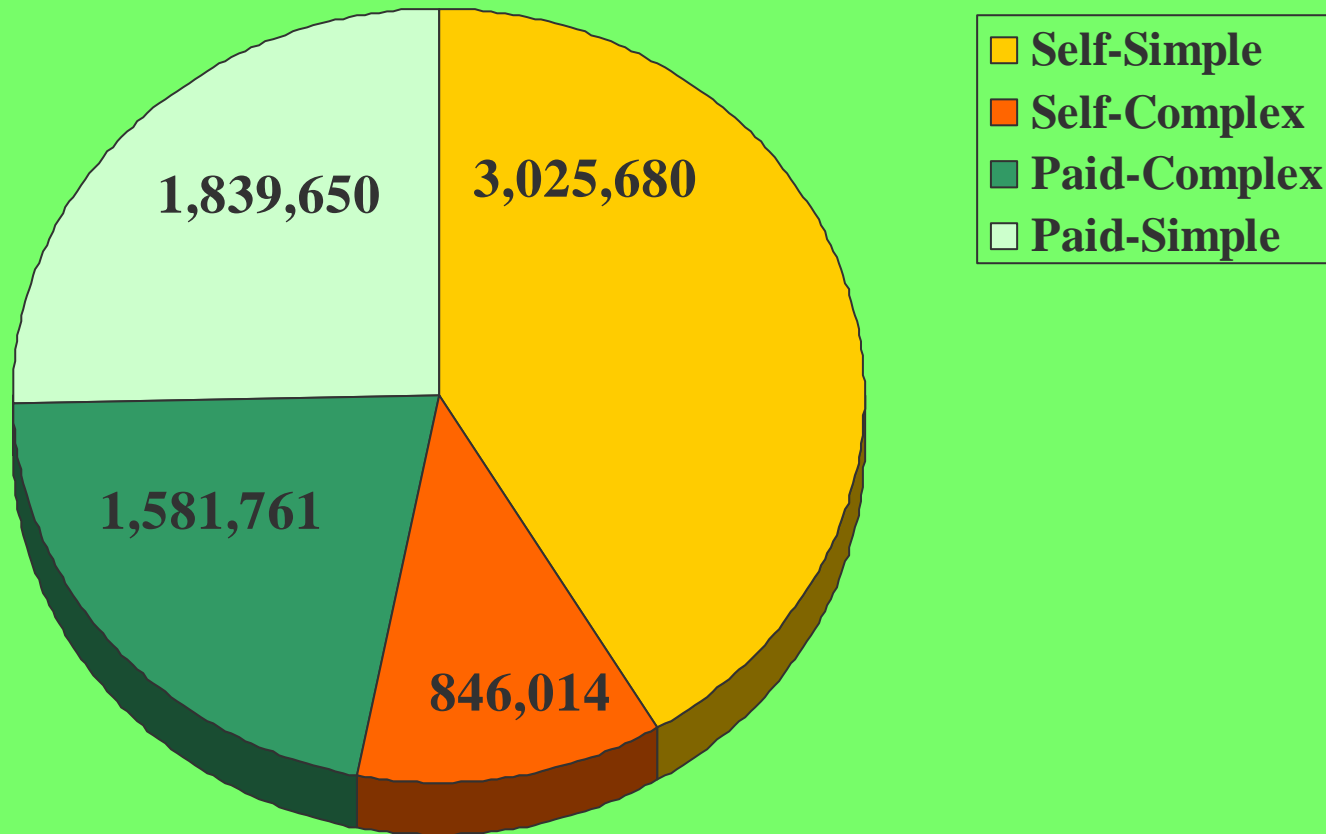
✿ Operating division

| | |
|-------|-----|
| W&I | 95% |
| SB/SE | 5% |

V-Code Status

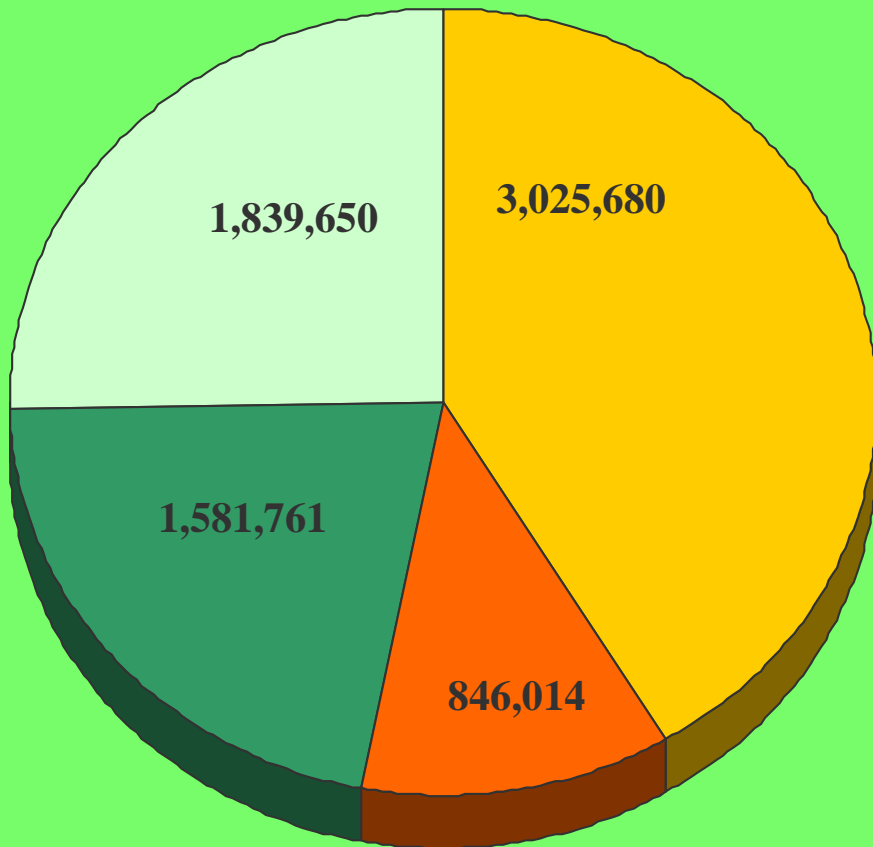
| | |
|-------------|-----|
| Self Simple | 6% |
| Self Comp | 28% |
| Pd Simple | 34% |
| Pd Comp | 58% |
| Overall | 23% |

Second time filers use preparers more and complete slightly more complex returns

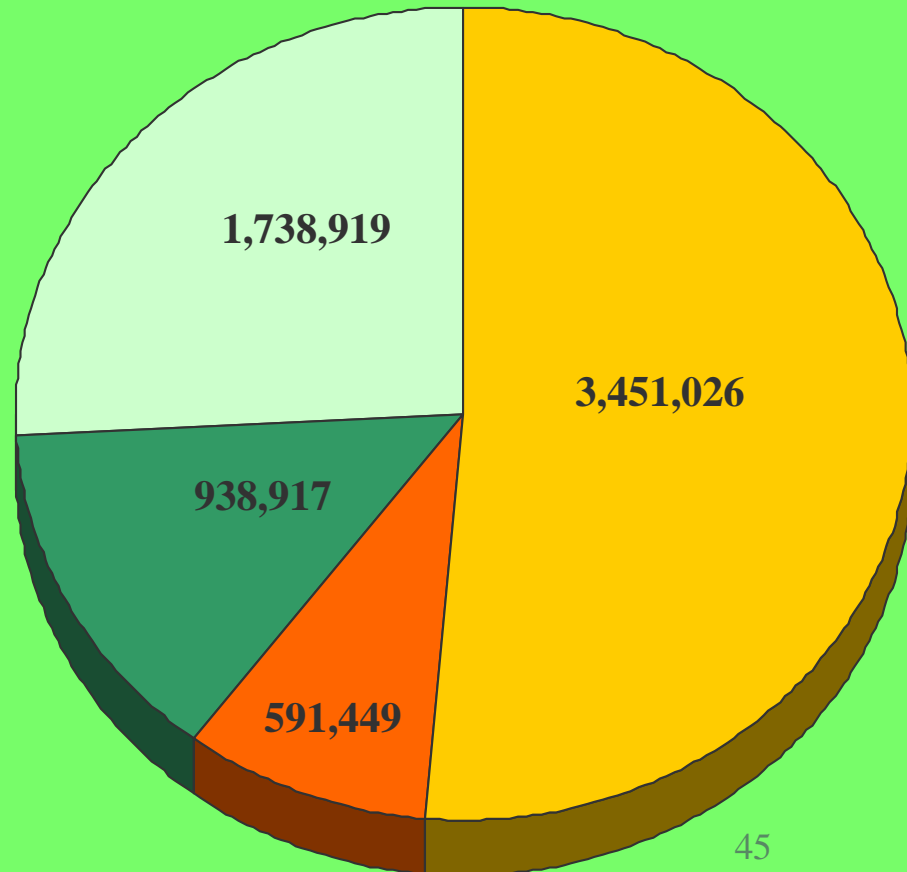


By year 2, returns are more complex and more likely to be completed by a preparer

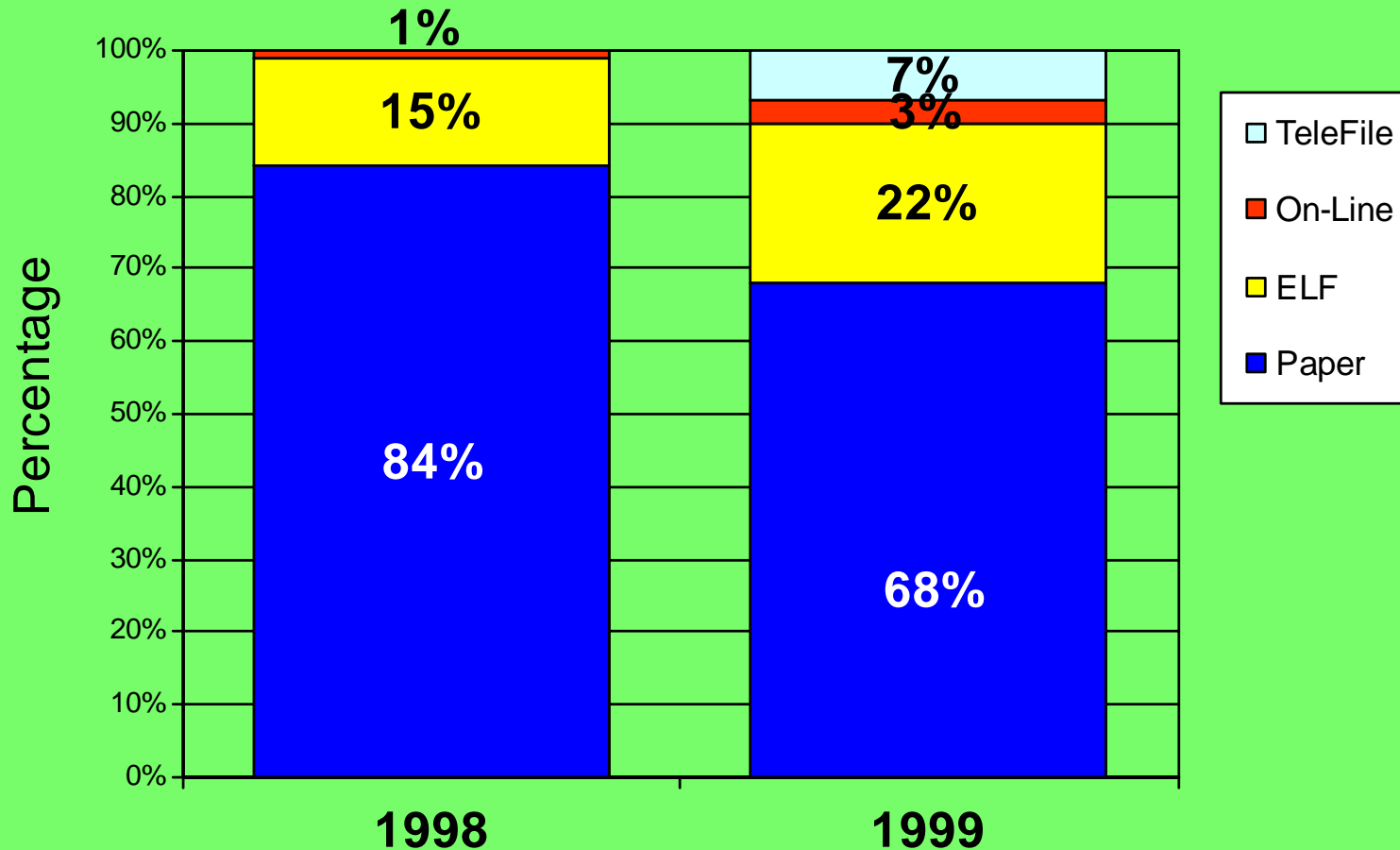
2nd Year Filers



1st Year Filers



Second-year filers doubled *e-file* use from year one to year two



But increased ELF usage contributes as much as TeleFile does

Second-time Filers

❧ Balance status

| | |
|-------------|-----|
| Refund | 80% |
| Balance due | 16% |
| Even | 4% |

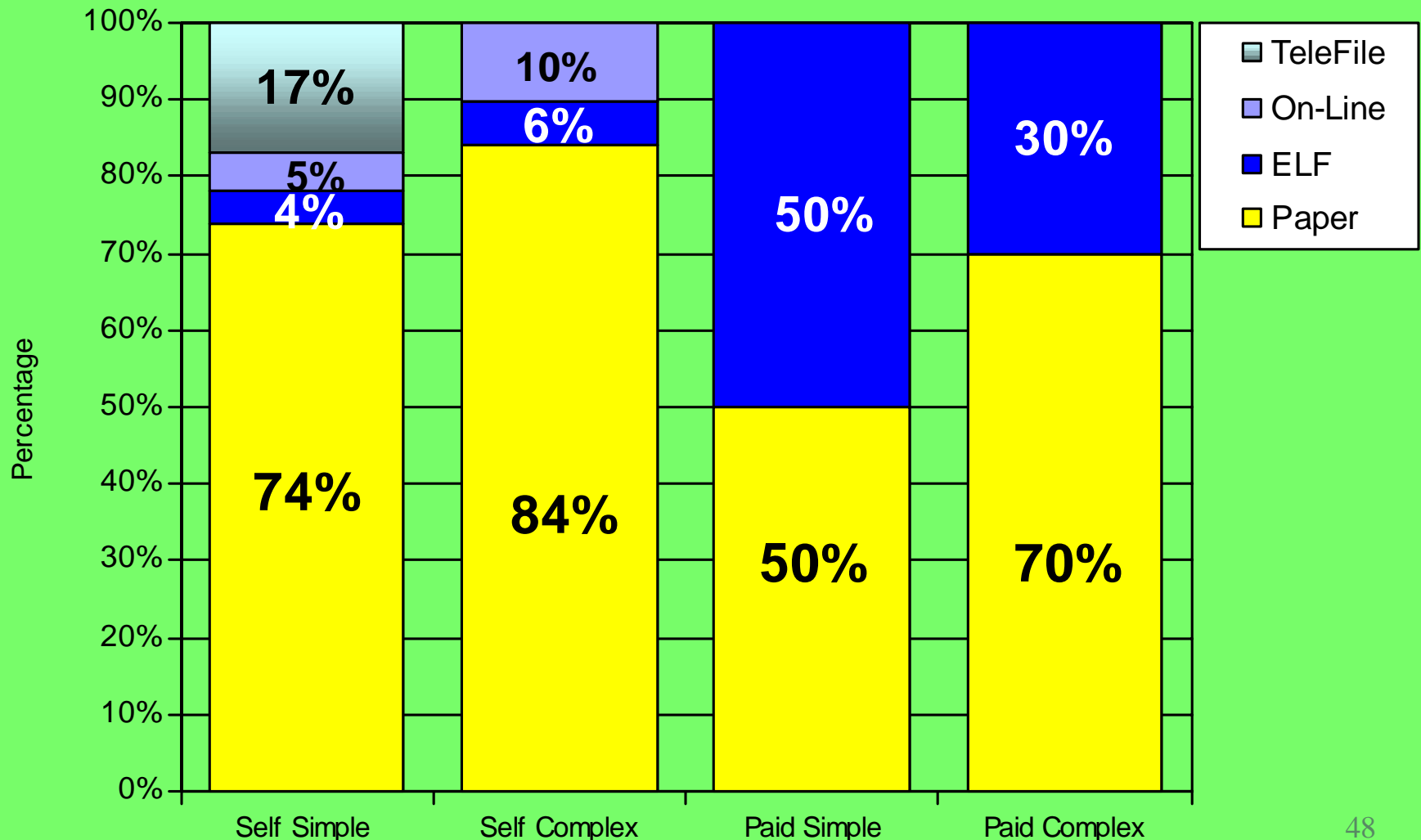
❧ Operating division

| | |
|-------|-----|
| W&I | 90% |
| SB/SE | 10% |

❧ The Balance status is similar

There are twice as many SB/SE returns in the second year

Second-year filers look similar to first-year filers in paid-preparer categories



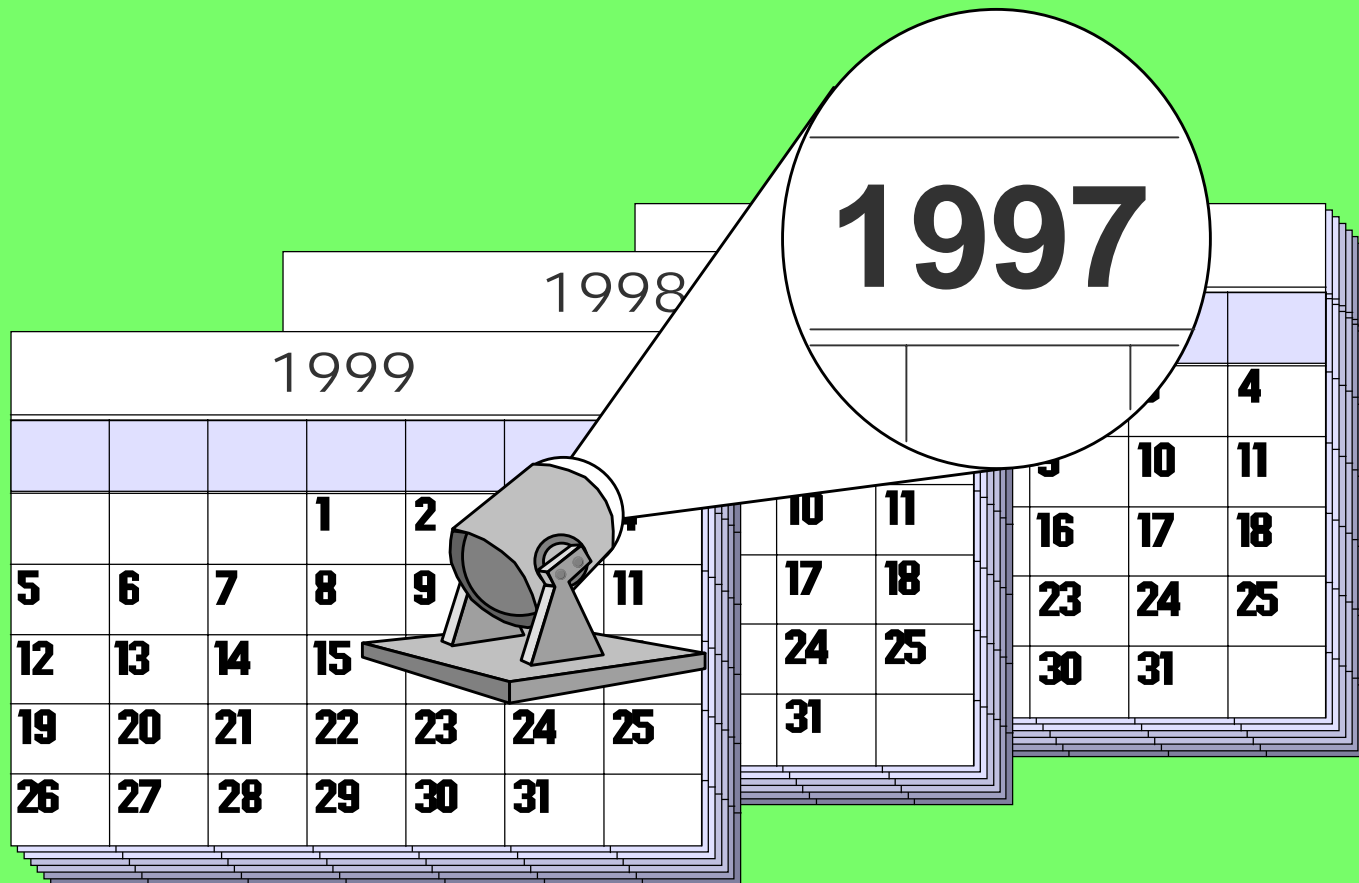
Summary

- ✿ In 1998, second-time filers used *e-file* for 16% of their returns; in 1999, their *e-file* use increased to 32%
- ✿ In 1999, first-time filers used *e-file* for 22% of their returns
- ✿ New filers who use paid-preparers *e-file* about 50% of the time; new filers who self-prepare use *e-file* under 10% of the time
- ✿ We have no product for first-time, self-prepared simple filers, or no product that appeals to them

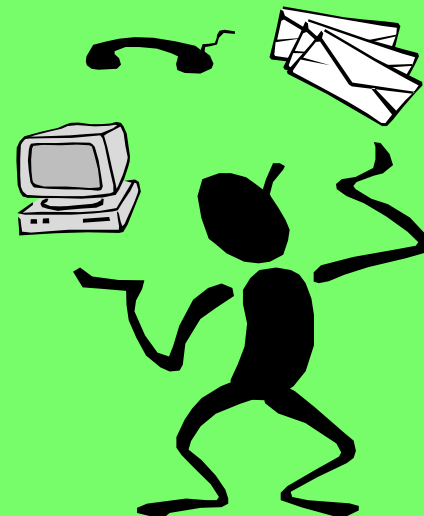
Recommendations

- ✿ We recommend a survey of first-time filers asking them what type of electronic product they would use if it were available.

What Are The Repeat Rates And Inter-Modal Migration Rates For *e-file* Methods?



e-file Repeat Rates



| Filing Method | Base Year 1999 | | |
|---------------|----------------|-------|-------|
| | 1998 | 1997 | 1996 |
| Paper | 85.8% | 81.2% | 76.6% |
| ELF | 79.8% | 74.4% | 71.3% |
| TeleFile | 60.7% | 43.8% | 36.1% |
| On-Line | 74.8% | 67.3% | 64.2% |

Comparing SB/SE and W&I Repeat rates

| W&I | Base Year 1999 | | |
|-----------------|-----------------------|-------------|-------------|
| | 1998 | 1997 | 1996 |
| ELF | 80% | 75% | 72% |
| TeleFile | 61% | 44% | 36% |
| On-Line | 73% | 66% | 63% |

| SBSE | | | |
|-----------------|-------------|-------------|-------------|
| | 1998 | 1997 | 1996 |
| ELF | 78% | 71% | 66% |
| TeleFile | N/A | N/A | N/A |
| On-Line | 81% | 72% | 67% |

Repeat rates of electronic filing compared

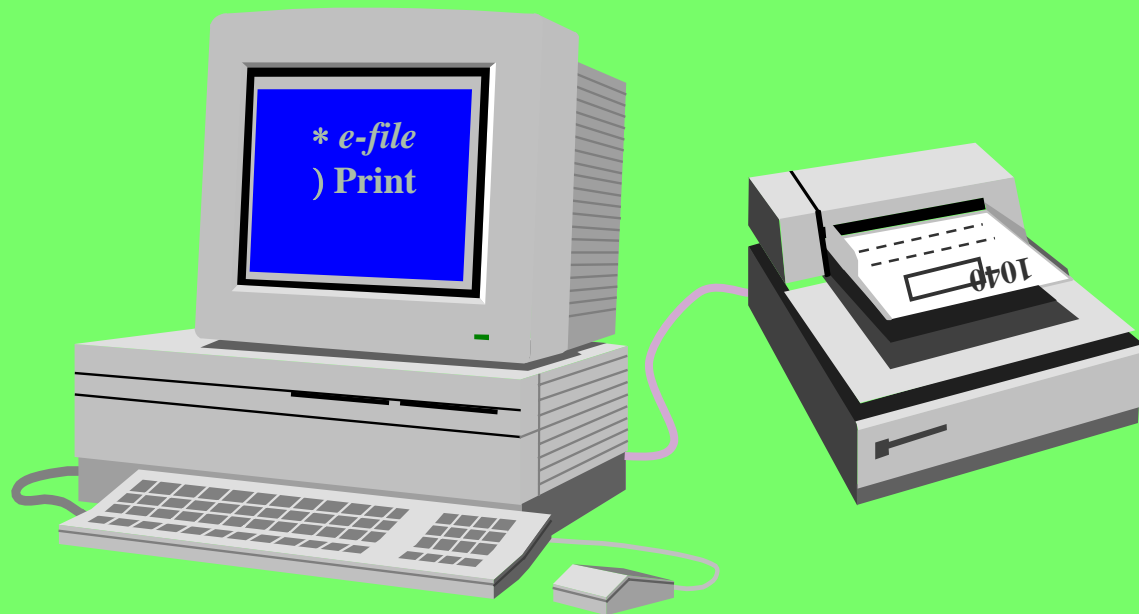
| | Refund | Balance Due | | No EIC | EIC |
|----------|--------|-------------|----------|--------|-----|
| ELF | 82% | 51% | ELF | 75% | 89% |
| TeleFile | 62% | 48% | TeleFile | 62% | 45% |
| On-Line | 78% | 56% | On-Line | 76% | 68% |

Presence of a refund is a strong influence on the decision to *e-file*

While EIC is a positive influence on ELF filers, it is a negative influence on On-Line and TeleFile users

9.4 million people used electronic filing in 1996, 1997, and 1998. 87% of those used electronic filing in 1999. Why did 13% return to paper?

❧ Can our data reveal why they may have stopped *e-filing*?



Loyal users of electronic filing: Can we tell why they return to paper?

9,492,544 returns filed using an electronic method for all three years between 1996 and 1998.

How did those taxpayers file in 1999?

| | Number of returns | Percentage |
|--------------------|-------------------|------------|
| Electronic in 1999 | 8,283,502 | 87.3 |
| Paper in 1999 | 1,209,042 | 12.7 |

What is the make-up of these 1.2 million taxpayers?

Why did they return to paper after three years of electronic filing?

Where do the 1.2 million people fall?

- 59% (708,162) used ELF for the prior three years
- 1% (13,760) used On-Line filing for the prior three years
- 31% (377,596) used TeleFile for the prior three years
- The other 9% (109,524) used different electronic filing methods for the prior three years

Of the 1.2 million filers who left electronic filing after three years, we determined:

- **39% used a paid-preparer in TY 1999**
- **61% prepared their own return in TY 1999**
- **19% were balance due in TY 1999**
- **40% submitted V-code returns for TY 1999**
- **10% filed 1040PC returns**
- **18% requested direct deposit**
- **none used direct debit**
- **.025% (308) could not *e-file* since they had non-electronic schedules**
- **88% were in the W&I operating division**

Let's take a closer look at these filers.....

IRS *e-filers*

7,231,730 *e-filed* for tax years 1996-1998

- 88% continued filing ELF
- 2% (124,444) went to On-Line filing
- .3% (21,770) went to TeleFile
- 10% (708,162) went back to paper

**CAN WE TELL WHY THESE TAXPAYERS
RETURNED TO PAPER?**

ELF filers

708,162 filed using ELF (a paid-preparer) for the prior three years and returned to paper:

- 46% (326,517) prepared their own return in TY 1999 and one-fifth of those returns were V-coded. (*124,444 that prepared their own returns went to On-Line*)
- 54% of the prior ELF filers continued to use a paid-preparer
- 23% (161,923) became balance due in TY 1999 and about one-fourth of those filed V-coded returns (*221,794 that became balance due still filed ELF*)
- 38% (267,313) showed no apparent changes that would keep them from filing electronically; and 75% filed a V-coded return

On-Line Filers

143,297 filed On-Line for tax years 1996-1998

- 88% continued filing On-Line
- 2% (3,150) went to ELF filing
- .3% (434) went to TeleFile
- 10% (13,760) went back to paper

**CAN WE TELL WHY THESE TAXPAYERS
RETURNED TO PAPER?**

On-Line filers

13,760 filed using On-Line (self-prepared returns) for the prior three years then filed paper:

- 24% (3,272) went to a paid-preparer in TY 1999 and over 57% of those returns were V-coded (3,150 went to a paid prep and filed ELF)
- 44% (6,098) became balance due in TY 1999 and almost three-fourths of those filed V-coded returns (12,567 that became balance due still filed On-Line)
- 41% showed no apparent changes that would keep them from filing electronically; 55% of those with no apparent change filed a V-coded return

TeleFile users

377,596 filed using TeleFile (self-prepared returns) for the prior three years, then filed paper.

Can we tell why they went to paper?

- **64% were not eligible to TeleFile**
- **Of the 36% still eligible to TeleFile:**
 - **3% went to paid preparer**
 - **1% filed V-coded returns**
 - **4% were balance due**
 - **24% used direct deposit**

We will look at TeleFile users in more depth later

Summary/Recommendations

- ❧ Our data shows no apparent reason why 38% of loyal ELF users and 41% of loyal On-Line filers stopped using the products
- ❧ Retaining loyal customers will be the key to reaching a goal of 80% electronic filing
- ❧ We recommend a survey of loyal customers who stopped using each method for insight into possible product improvements

Computer Prepared Returns

- ✿ V-code returns (computer-prepared, but paper filed returns)
- ✿ Form 1040PC returns
- ✿ Electronically filed returns (ELF and On-Line)

Computer prepared, paper returns increased TY 1998 to TY 1999

| | TY 1997 | TY 1998 | TY 1999 | Percentage change TY 1997 to TY 1998 | Percentage change TY 1998 to TY 1999 |
|-------------------------------|------------|------------|------------|--------------------------------------------|--------------------------------------------|
| Paper returns | 79% | 74% | 69% | -8% | -9% |
| V-code | 29% | 34% | 35% | 15% | 6% |
| Form 1040PC | 6% | 5% | 4% | -18% | -21% |
| Other paper | 43% | 35% | 31% | -22% | -9% |
| Electronic returns | 21% | 26% | 31% | 20% | 20% |
| Total | 100% | 100% | 100% | - | - |

The total number of V-coded paper returns increased by 2.3 million returns from TY 1998 and now comprises 53% of all paper filed returns and 39% of all returns.

Computer-prepared returns by market segment

- 80% of all V-code returns are prepared by paid-preparers
- 92% of the paid-preparer simple segment and 94% of the paid-preparer complex segment are computer prepared

| Market segment | Hand prepared, paper return | V-coded returns | Form 1040PC | E-file returns | Percentage of segment computer prepared |
|---------------------------------------------------|--------------------------------|--------------------|----------------|-------------------|--------------------------------------------|
| Self-prepared simple | 60% | 6% | 14% | 25% | 36% |
| Self-prepared complex | 29% | 14% | 28% | 11% | 52% |
| Paid-preparer simple | 5% | 20% | 23% | 33% | 92% |
| Paid-preparer complex | 6% | 60% | 35% | 31% | 94% |
| Total | 100% | 100% | 100% | 100% | 69% |
| Method of filing as a percent of total returns | 31% | 35% | 4% | 30% | 100% |

The percentage of taxpayers self-preparing their returns and using a computer increased over three percent from TY 1998

Among self-prepared complex returns, using a computer to prepare the return increased almost seven percent from TY 1998

Method of filing percentage of each market segment

Paid-preparer returns have a higher proportion of V-code returns than the self-prepared segments

| Market segment | Hand prepared, paper return | V-coded returns | Form 1040PC | Electronic returns | Total | Percent of segment computer prepared |
|------------------------------------------------|-----------------------------|-----------------|-------------|--------------------|-------|--------------------------------------|
| Self-prepared simple | 64% | 8% | 2% | 26% | 100% | 36% |
| Self-prepared complex | 49% | 26% | 6% | 19% | 100% | 52% |
| Paid-preparer simple | 8% | 35% | 5% | 52% | 100% | 92% |
| Paid-preparer complex | 6% | 62% | 4% | 28% | 100% | 94% |
| Method of filing as a percent of total returns | 31% | 35% | 4% | 30% | 100% | 69% |

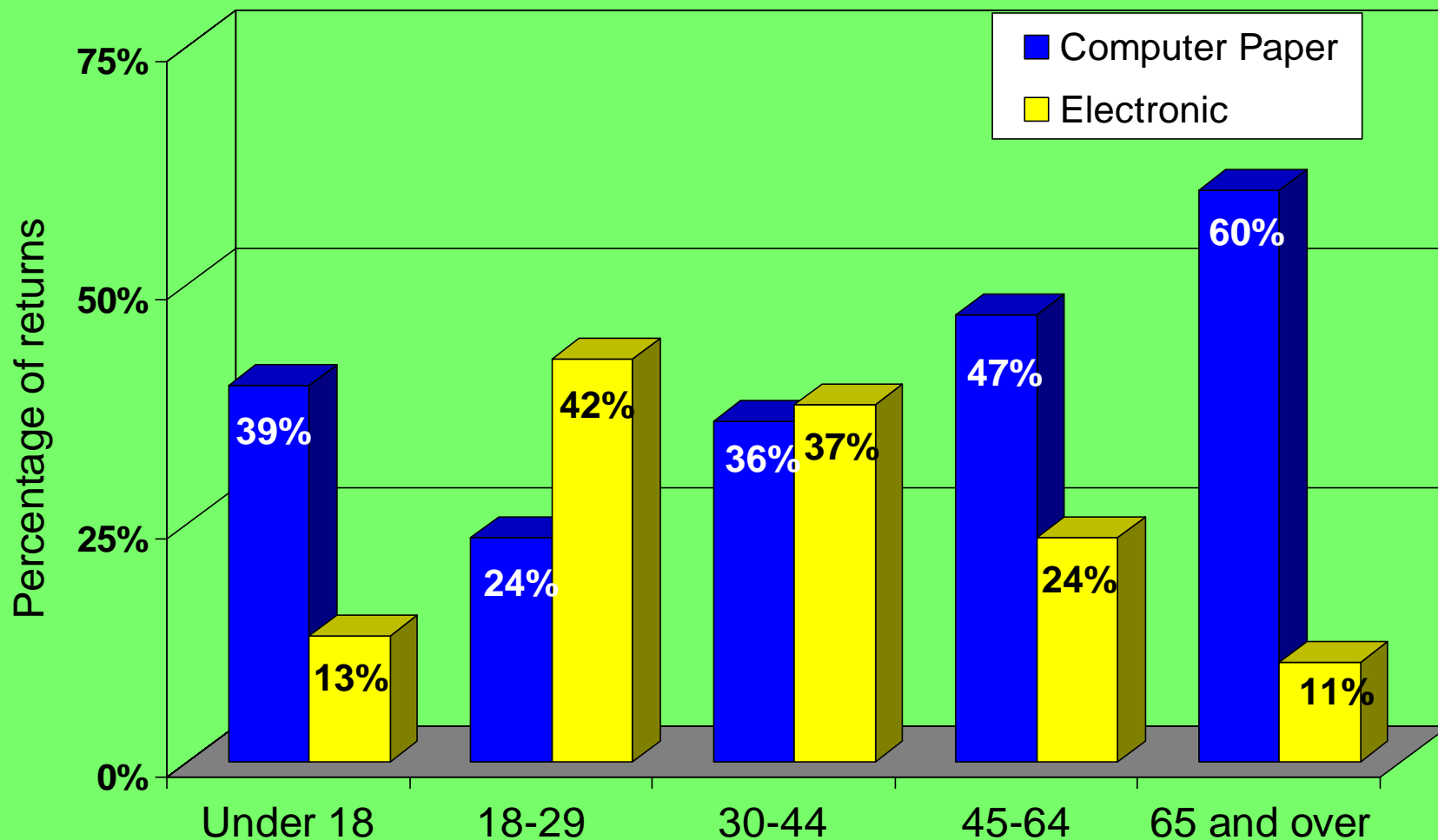
64% of the returns filed in the self-prepared, simple segment are hand-prepared, paper returns

62% of the returns filed in the paid-preparer, complex segment are computer prepared, but paper-filed.

Computer usage compared to electronic usage

| Market Segment | Percentage of segment computer prepared | Percentage computer prepared and electronically filed |
|-----------------------|-----------------------------------------|-------------------------------------------------------|
| Self-prepared simple | 36% | 72% |
| Self-prepared complex | 52% | 37% |
| Paid-preparer simple | 92% | 57% |
| Paid-preparer complex | 94% | 30% |
| Total | 69% | 43% |

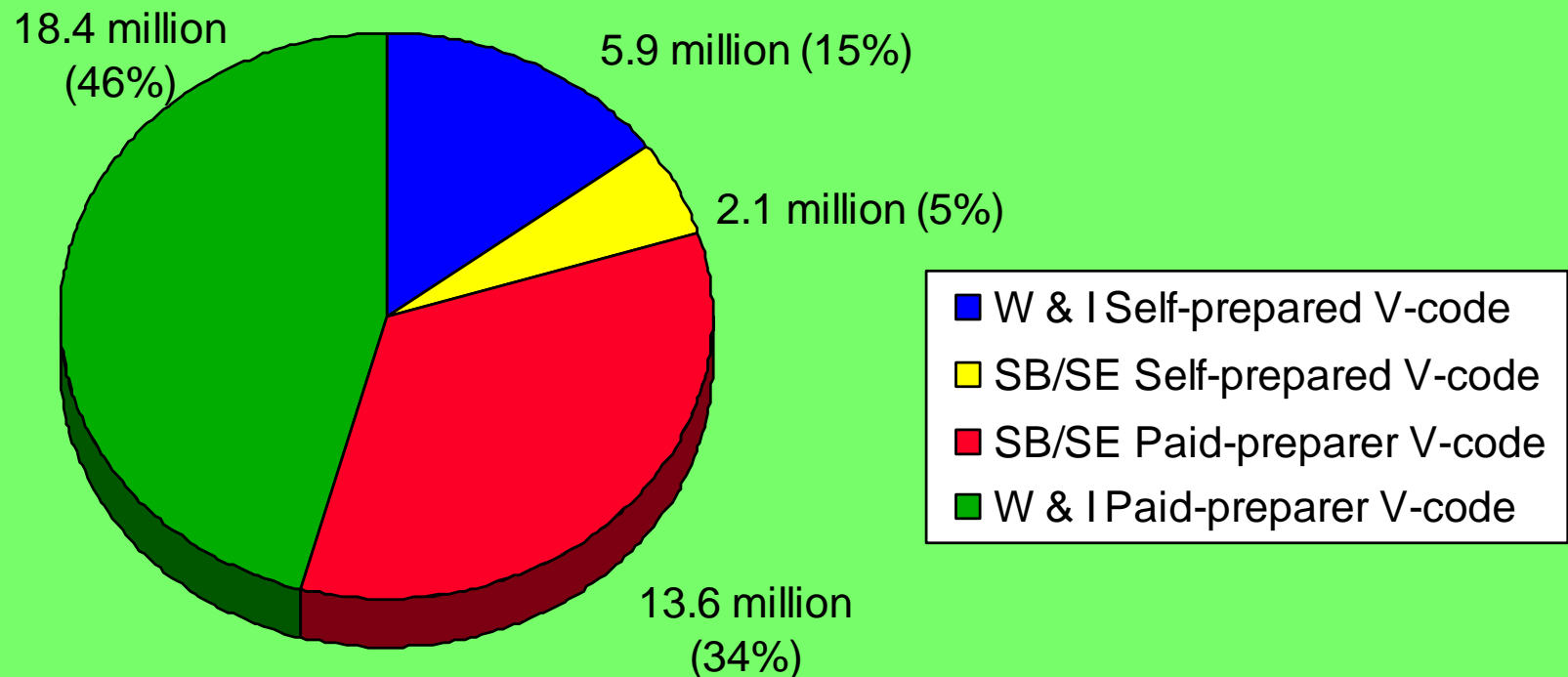
V-code and Age



1/3 of V-coded returns are filed by taxpayers age 45 to 64

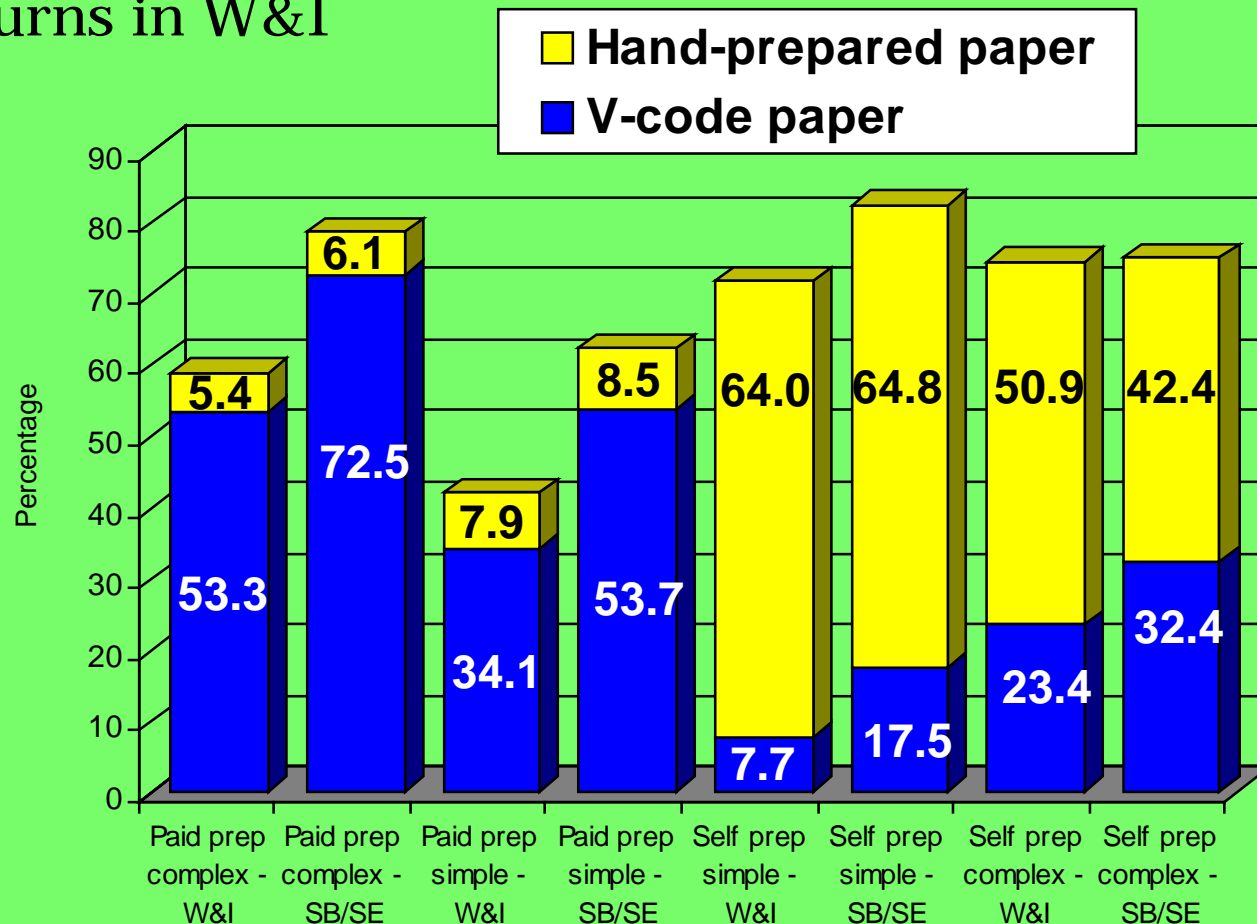
V-code returns, operating divisions and market segments

- 80% of the V-code returns are prepared by paid-preparers
- 46% of the V-code returns are prepared by paid-preparers and are in the W&I division



V-code in business operating divisions

- The proportion of V-code returns is higher in the SB/SE division in all four segments
- Over 72% of the paid-preparer complex returns in SB/SE have a V-code compared to 53% of the paid-preparer complex returns in W&I



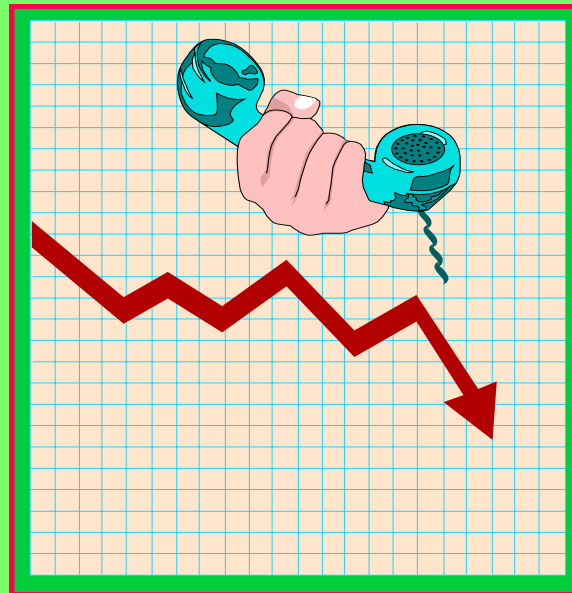
Form 1040 PC

- In TY 1998, 5.8 million Form 1040PC returns were filed
- In TY 1999, 4.6 million Form 1040PC returns were filed.
- TY 1999 was the last year that Forms 1040PC will be accepted.
- Beginning in TY 2000, Research will track the 4.6 million 1040PC filers to determine their method of filing in future years.

Computer Prepared Returns Summary

- ✿ 64% of self-prepared simple returns are hand prepared paper returns;
- ✿ these taxpayers (over 21 million), are 18% of all filers, yet we do not market an acceptable *e-file* alternative to them.
- ✿ We recommend a survey of self-prepared simple filers asking them what type of electronic product they would use

What Happened With TeleFile?



The number and percentage of TeleFile returns filed for tax years 1996 through 1999

| Tax year | Number of TeleFile returns | Percentage of total returns |
|-----------------|-----------------------------------|------------------------------------|
| TY 1996 | 4,682,576 | 4.5 |
| TY 1997 | 5,915,184 | 5.2 |
| TY 1998 | 5,658,966 | 5.1 |
| TY 1999 | 5,153,011 | 4.5 |

Meeting the TeleFile eligibility criteria is a continuing problem for TeleFile package recipients

| | TY 1997 | | | TY 1998 | | | TY 1999 | | |
|----------------------------|------------|------|------|------------|------|------|------------|------|------|
| TeleFile package mailed | 24,630,782 | | | 25,012,031 | | | 21,453,344 | | |
| Did not file a return | 3,229,055 | | | 3,334,570 | | | 1,168,293 | | |
| Filed a return | 21,401,727 | 100% | | 21,677,461 | 100% | | 20,285,051 | 100% | |
| Eligible to TeleFile | 14,614,025 | 68% | 100% | 13,757,870 | 63% | 100% | 12,648,968 | 62% | 100% |
| Eligible and used TeleFile | 5,915,184 | 28% | 40% | 5,658,966 | 26% | 41% | 5,153,011 | 25% | 41% |
| Not eligible to TeleFile | 6,787,702 | 32% | | 7,919,591 | 37% | | 7,653,188 | 38% | |

Why was the taxpayer ineligible to TeleFile?

| TeleFile Ineligible Reason | Number of Returns | Percent of Total | Frequency of Occurrence | |
|----------------------------|-------------------|------------------|-------------------------|---------|
| | | | Number | Percent |
| Taxpayer Moved | 3,387,479 | 44% | 5,740,606 | 75% |
| Schedules Attached | 488,147 | 6% | 1,520,256 | 20% |
| Changed Filing Status | 149,008 | 2% | 1,385,961 | 18% |
| Income Adjustments | 100,306 | 1% | 1,076,565 | 14% |
| Claimed Dependents | 162,761 | 2% | 1,136,563 | 15% |
| Student Loan | 111,307 | 1% | 560,398 | 7% |
| Education Credit | 287,759 | 4% | 724,450 | 9% |
| Interest Income >\$399 | 396 | 0% | 257,011 | 3% |
| Over \$50,000 Income | 73,934 | 1% | 241,730 | 3% |
| Over Age 65 | 19,086 | 0% | 40,874 | 1% |
| Multiple Reasons | 2,855,900 | 37% | | |
| Total | 7,636,083 | 100% | | |

Multiple reasons for not being eligible to TeleFile fell slightly

| | | | | | | |
|----------------------------|------------|------|------------|------|------------|------|
| Filed a Return | 21,401,727 | 100% | 21,677,461 | 100% | 20,285,051 | 100% |
| TeleFile Ineligible Return | 6,787,702 | 32% | 7,919,591 | 37% | 7,653,188 | 38% |
| Moved | 3,632,272 | 17% | 3,189,946 | 15% | 3,387,479 | 17% |
| Changed filing status | 239,591 | 1% | 215,576 | 1% | 149,008 | 1% |
| Schedules | 876,116 | 4% | 569,240 | 3% | 488,147 | 2% |
| Dependents | 108,961 | 1% | 91,783 | 0% | 162,761 | 1% |
| Student Loan | 0 | 0% | 147,925 | 1% | 111,307 | 1% |
| Education Credit | 0 | 0% | 333,640 | 2% | 287,759 | 1% |
| More Than One Reason | 1,860,918 | 9% | 3,233,435 | 15% | 2,855,900 | 14% |

Moving returned to being the number one reason taxpayers can not TeleFile

What happened to TeleFile?

A case study of 1996 TeleFile users through 1997, 1998, and 1999



Background

- About 3.8 million of the 4.7 million who filed using TeleFile in the 1996 tax year also filed a return in the 1999 tax year.
- By 1999, only 46% of the 3.8 million are still using TeleFile.
- Can our multi-year relational database help us determine why?

In Tax Year (TY) 1997:

| | | |
|---------------------------------------------------------------------------|-------------------|-------------|
| Of the 3,864,877 taxpayers that TeleFiled in 1996 and also filed in 1999: | Number of returns | Percentage |
| Taxpayers that filed a return in 1997 | 3,781,656 | 97.8 |
| Taxpayers that did not file in 1997 | 83,221 | 2.2 |
| Taxpayers that were eligible to TeleFile for TY 1997 | 2,752,257 | 72.8 |
| • Taxpayers that used TeleFile in 1997 | 2,377,449 | 86.4 |
| • Taxpayers that used OnLine in 1997 | 4,164 | 0.1 |
| • Taxpayers that used ELF in 1997 | 42,148 | 1.5 |
| • Taxpayers that used paper in 1997 | 328,496 | 12.0 |
| Taxpayers that were not eligible* to TeleFile for TY 1997 | 1,029,399 | 27.2 |
| • Taxpayers that used OnLine in 1997 | 16,818 | 1.6 |
| • Taxpayers that used ELF in 1997 | 144,714 | 14.1 |
| • Taxpayers that used paper in 1997 | 867,867 | 84.3 |

*Why taxpayers were ineligible to use TeleFile in TY 1997:

- 34 percent because of moving,
- 52 percent because of multiple reasons (and 42 percent of these show moving as one of the multiple reasons), and
- 76 percent of **all** single and multiple reasons included moving

In Tax Year (TY) 1998:

| | | |
|--------------------------------------------------------------------------------------------------|-------------------|-------------|
| Of the 3,864,877 taxpayers that TeleFiled in 1996 and also filed in 1999: | Number of returns | Percentage |
| Taxpayers that filed a return in 1998 | 3,778,541 | 97.8 |
| Taxpayers that did not file in 1998 | 86,336 | 2.2 |
| Taxpayers that received a TeleFile package and were eligible to TeleFile for TY 1998 | 2,111,646 | 55.9 |
| • Taxpayers that used TeleFile in 1998 | 1,771,830 | 83.9 |
| • Taxpayers that used OnLine in 1998 | 9,127 | 0.4 |
| • Taxpayers that used ELF in 1998 | 52,918 | 2.5 |
| • Taxpayers that used paper in 1998 | 277,771 | 13.2 |
| Taxpayers that received a TeleFile package but were not eligible* to TeleFile for TY 1998 | 825,510 | 21.8 |
| • Taxpayers that used OnLine in 1998 | 32,720 | 4.0 |
| • Taxpayers that used ELF in 1998 | 153,993 | 18.5 |
| • Taxpayers that used paper in 1998 | 639,797 | 77.5 |
| Taxpayers that did not receive a TeleFile package for TY 1998 | 841,385 | 22.3 |
| • Taxpayers that used OnLine in 1998 | 32,918 | 3.9 |
| • Taxpayers that used ELF in 1998 | 140,907 | 16.8 |
| • Taxpayers that used paper in 1998 | 667,560 | 79.3 |

* Why taxpayers who received a TeleFile package, but could not use TeleFile in TY 1998, were ineligible:

- 33 percent because of moving,
- 48 percent because of multiple reasons, and
- 59 percent of **all** single and multiple reasons included moving.

In Tax Year (TY) 1999:

| Of the 3,864,877 taxpayers that TeleFiled in 1996 and also filed in 1999: | Number of returns | Percentage |
|--------------------------------------------------------------------------------------------------|-------------------|-------------|
| Taxpayers that filed a return in 1999 | 3,864,877 | 100.0 |
| Taxpayers that did not file in 1999 | 0 | 0 |
| Taxpayers that received a TeleFile package and were eligible to TeleFile for TY 1999 | 1,859,171 | 48.1 |
| • Taxpayers that used TeleFile in 1999 | 1,396,733 | 75.1 |
| • Taxpayers that used OnLine in 1999 | 44,125 | 2.4 |
| • Taxpayers that used ELF in 1999 | 85,735 | 4.6 |
| • Taxpayers that used paper in 1999 | 332,578 | 17.9 |
| Taxpayers that received a TeleFile package but were not eligible* to TeleFile for TY 1999 | 690,700 | 17.9 |
| • Taxpayers that used OnLine in 1999 | 56,786 | 8.2 |
| • Taxpayers that used ELF in 1999 | 152,164 | 22.0 |
| • Taxpayers that used paper in 1999 | 481,750 | 69.8 |
| Taxpayers that did not receive a TeleFile package for TY 1999 | 1,315,006 | 34.0 |
| • Taxpayers that used OnLine in 1999 | 124,796 | 9.5 |
| • Taxpayers that used ELF in 1999 | 273,937 | 20.8 |
| • Taxpayers that used paper in 1999 | 916,273 | 69.8 |

* Why taxpayers who received a TeleFile package, but could not use TeleFile in TY 1999, were ineligible:

- 32 percent because of moving,
- 65 percent because of multiple reasons, and

TeleFile Summary

☛ In 1996

4,682,576 TeleFile returns were filed

☛ By 1999

900,920 (19 percent) of these filers had become secondary filers or had stopped filing

Only 2,549,871 (54 percent) still received a TeleFile package

Only 1,396,733 (30 percent) still filed using TeleFile

TeleFile Conclusions

- ❧ The 3-year repeat rate of 30% means that every 3 years you must replace 7 out of 10 TeleFile users
- ❧ On-Line filing is not the cause of the decrease in TeleFile
- ❧ Moving alone is a reason for 46% of all TeleFile ineligibility. Moving disqualifies 75% of taxpayers ineligible for TeleFile
- ❧ Most of those who receive a TeleFile package choose TeleFile or paper as their filing option

TeleFile Recommendations

- ❧ Over 15 million TeleFile package recipients filed using paper; this represents 13% of all filers
- ❧ First-time filers (6.8 million) did not get a TeleFile package; this represents 6% of all filers
- ❧ These are huge obstacles to an 80% electronic usage rate.
- ❧ Therefore, a tough decision must be made:

TeleFile Recommendations (continued)

Either

1) Consider eliminating moving as a criteria for Telefile eligibility.

- Substitute the addition of an Internet component to Telefile for identification purposes.
- First-time simple filers could also use this

Or

TeleFile Recommendations (continued)

2) Consider discontinuing TeleFile as a filing option

- Year to year repeat rate of 61% is lowest among the three IRS electronic products
- 38% who got package this year ineligible
- Taxpayers who leave TeleFile migrate back to paper
- First-time filers currently cannot use TeleFile

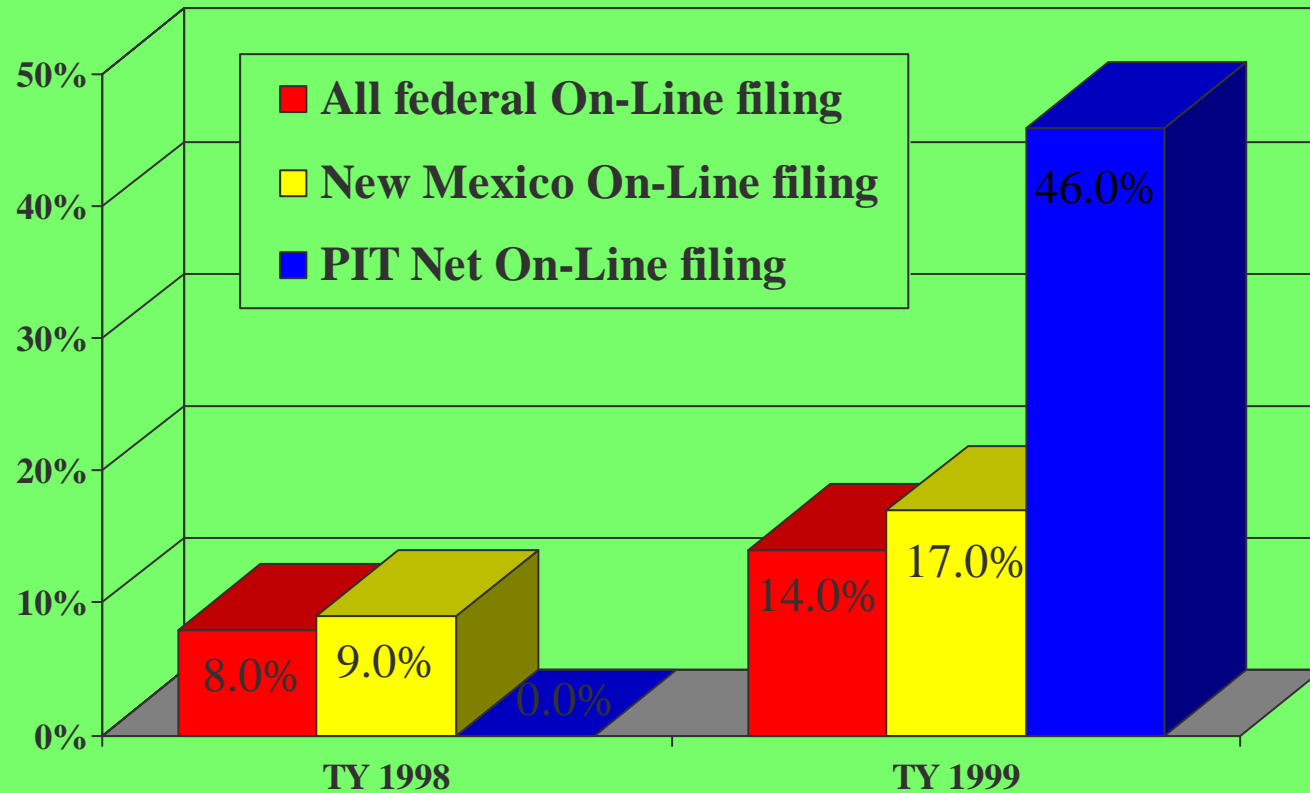
State Online Filing Program

Analysis Of New Mexico Online
State Filing Program And Its Effect
On Federal Electronic Filing

New Mexico's Online Filing Program Personal Income Tax (PIT-Net)

- ✿ Direct online system with state database
- ✿ No fee
- ✿ Computed on federal return data with adjustments for state limitations
- ✿ Not limited to any single federal form

Federal, New Mexico and PIT-Net Online Filing Rates



Forrester Research, Inc

- ✿ Surveyed 463 households who filed their TY 1999 state income tax on-line:
 - **High product loyalty-** 82 percent plan to use on-line again for TY 2000
 - **High potential for federal filing-** 92 percent indicated they would file their TY 2000 federal return online

What Is the Bottom Line?

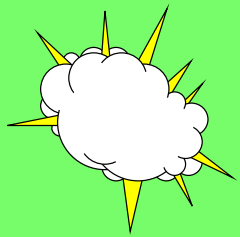


Overall Summary

- ❧ The *e-file* penetration increased significantly but, the current growth rate is still not sufficient to reach 80% electronic filing by the year 2007
- ❧ Growth in *e-file* penetration is still lagging with self-prepared simple and balance due returns
- ❧ There is not significant migration between *e-file* methods
- ❧ The filing of computer prepared (V-code) paper returns continues to increase

Overall Summary (continued)

- ✿ Most self-prepared returns are prepared without the use of a computer.
- ✿ TeleFile use continues to decrease and On-Line filing is not the cause
- ✿ First-time filers who prepare their own returns file paper returns almost 92 percent of the time
- ✿ Even loyal *e-file* users (used three straight years) are leaving *e-file*



Overall Recommendations

- ⚡ Develop return-free filing methods targeted for the simpler self-prepared returns
- ⚡ Develop a strategy to encourage taxpayers and practitioners to electronically file all computer prepared returns
- ⚡ The Service should continue to develop marketing strategies that will encourage balance due taxpayers to electronically file, including working with software developers to create a link to electronic Form 9465 (installment agreement request)